

STATE OF OKLAHOMA
DEPARTMENT OF SECURITIES
THE FIRST NATIONAL CENTER
120 NORTH ROBINSON, SUITE 860
OKLAHOMA CITY, OKLAHOMA 73102



In the Matter of:

Anthony L. Cross (CRD #3155726), and
The O.N. Equity Sales Company (CRD #2936),

Respondents.

ODS File No. 11-017

NOTICE OF SERVICE ON THE ADMINISTRATOR
AND
AFFIDAVIT OF COMPLIANCE

STATE OF OKLAHOMA)
)
COUNTY OF OKLAHOMA) ss.

The undersigned affiant, of lawful age, being first duly sworn upon oath deposes and states:

1. That he is the Administrator of the Oklahoma Department of Securities ("Administrator").

2. That a copy of the Notice of Opportunity for Hearing ("Notice") with Enforcement Division Recommendation ("Recommendation") attached was delivered to Affiant in the office of the Administrator pursuant to Section 1-611 of the Oklahoma Uniform Securities Act ("Act"), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (Supp. 2010).

3. That the Administrator has received service of process on behalf of Respondents, pursuant to Section 1-611 of the Act.

4. That a copy of the Notice, with the Recommendation attached, and a copy of this Notice of Service on the Administrator and Affidavit of Compliance are being sent this 25th day of January, 2012, by certified mail, return receipt requested, delivery restricted to addressee, to the last known addresses of Respondents, in compliance with Section 1-611 of the Act.

5. That this Affidavit of Compliance is declared filed of record as of the date set forth below in compliance with Section 1-611 of the Act.

FURTHER AFFIANT SAYETH NOT.

Dated this 25th day of January, 2012.

(SEAL)



IRVING L. FAUGHT, ADMINISTRATOR OF THE
OKLAHOMA DEPARTMENT OF SECURITIES

Subscribed and sworn to before me this 25th day of January, 2012.

(SEAL)

 BREANDA LONDON
Notary Public
State of Oklahoma
Commission # 05009046 Expires 09/28/13



Notary Public

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In the Matter of:

Anthony L. Cross (CRD #3155726), and
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Respondents.

ODS File No. 11-017

NOTICE OF OPPORTUNITY FOR HEARING

1. Pursuant to Sections 1-410(D) and 1-602 of the Oklahoma Uniform Securities Act of 2004 ("Act"), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (2011), and 660:11-5-43 of the Rules of the Oklahoma Securities Commission and the Administrator of the Department of Securities ("Rules") (effective July 1, 2007), Okla. Admin. Code §§ 660:1-1-1 through 660:25-7-1, the Oklahoma Department of Securities ("Department") conducted a for-cause examination of certain activities of Anthony L. Cross ("Cross") and The O.N. Equity Sales Company ("ONESCO") (collectively, "Respondents") in connection with the offer and/or sale of securities in and/or from Oklahoma.

2. On the 25th day of January, 2012, the attached Enforcement Division Recommendation ("Recommendation") was left in the office of the Administrator of the Oklahoma Department of Securities ("Administrator").

3. Pursuant to 660:2-9-1 of the Rules and Section 1-411 of the Act, the Administrator hereby gives notice to Respondents of their obligation to file an answer and their right to request a hearing to show why an order based on the Recommendation should not be issued.

4. The answer must be in writing and received by the Administrator within fifteen (15) days after service of this Notice. As required by 660:2-9-2 of the Rules, the answer shall indicate whether Respondents request a hearing and shall specifically admit or deny each allegation contained in the Recommendation or state that Respondents do not have, and are unable to obtain, sufficient information to admit or deny each allegation. If Respondents intend in good faith to deny only a part of an allegation, Respondents shall specify so much of it as is true and shall deny only the remainder.

5. Failure to file an answer in compliance with 660:2-9-2 of the Rules, to include a request for a hearing as provided for herein, shall result in the issuance of an order suspending Cross's agent and investment adviser representative registrations

under the Act for thirty (30) business days, censuring ONESCO, and imposing civil penalties in the amount of \$10,000 each against Respondents Cross and ONESCO, pursuant to Section 1-411 of the Act and 660:2-9-2 of the Rules.

6. Upon receipt of a written request, pursuant to 660:2-9-2 of the Rules, a hearing on the Recommendation shall be promptly scheduled or a written order denying hearing shall be issued.

7. Notice of the date, time and location of the hearing shall be given to Respondents not less than forty-five (45) days in advance thereof, pursuant to 660:2-9-2 of the Rules.

Witness my Hand and the Official Seal of the Oklahoma Department of Securities
this 25th day of January, 2012.

(SEAL)



IRVING L. FAUGHT, ADMINISTRATOR OF THE
OKLAHOMA DEPARTMENT OF SECURITIES

CERTIFICATE OF MAILING

The undersigned hereby certifies that on the 25th day of January, 2012, a true and correct copy of the above and foregoing *Notice of Opportunity for Hearing* and the *Enforcement Division Recommendation* were mailed by certified mail, return receipt requested, delivery restricted, with postage prepaid thereon, addressed to:

Anthony L. Cross
708 W. 15th St., Ste. 120
Edmond, OK 73013

Andrew VanHoy
Second V.P., Compliance
The O.N. Equity Sales Company
One Financial Way
Cincinnati, OH 45242



Brenda London, Paralegal

STATE OF OKLAHOMA
DEPARTMENT OF SECURITIES
THE FIRST NATIONAL CENTER
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OKLAHOMA CITY, OKLAHOMA 73102



In the Matter of:

Anthony L. Cross (CRD #3155726), and
The O.N. Equity Sales Company (CRD #2936),

Respondents.

ODS File No. 11-017

ENFORCEMENT DIVISION RECOMMENDATION

Pursuant to Sections 1-410(D) and 1-602 of the Oklahoma Uniform Securities Act of 2004 ("Act"), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (Supp. 2010), and 660:11-5-43 of the Rules of the Oklahoma Securities Commission and the Administrator of the Department of Securities ("Rules") (effective July 1, 2007), Okla. Admin. Code §§ 660:1-1-1 through 660:25-7-1, the Oklahoma Department of Securities ("Department") conducted a for-cause examination of certain activities of Anthony L. Cross ("Cross") and The O.N. Equity Sales Company ("ONESCO") (collectively, "Respondents") in connection with the offer and/or sale of securities in and/or from Oklahoma. Based thereon, the Enforcement Division of the Department submits the following Findings of Fact, Authorities, and Conclusions of Law to the Administrator of the Department ("Administrator") in support of sanctions against Respondents.

Findings of Fact

Respondents

1. ONESCO has been registered as a broker-dealer under Oklahoma securities laws since 1988. ONESCO's main office is located in Cincinnati, Ohio. At all times material hereto, ONESCO has had a fully disclosed introducing broker-dealer arrangement with Pershing LLC ("Pershing"), another registered broker-dealer.

2. Cross first registered as a broker-dealer agent under Oklahoma securities laws in December 1998. Cross has been registered as a broker-dealer agent of ONESCO under Oklahoma securities laws since September 2001. Cross has been registered as an investment adviser representative of O.N. Investment Management Co., an S.E.C. registered investment adviser, since July 2006. Cross operates from an ONESCO branch office located in Edmond, Oklahoma. The Edmond office is not an office of supervisory jurisdiction.

Customer TH

3. Customer TH was born in 1930. Customer TH has been a widow since June 2006. Customer TH has no living children, grandchildren, siblings, parents or other relations.

4. Customer TH lives in a house in Oklahoma City that she and her husband acquired in 1974. Customer TH and her husband paid off their home several years prior to 2006. The house appraised for \$160,000 in August 2006 and \$150,500 in August 2009.

5. Customer TH and her husband were clients of Cross for many years. In July 2006, approximately one month after her husband died, Customer TH asked Cross about ways to supplement her monthly income. Cross told Customer TH that she could mortgage her house, invest the mortgage proceeds, and use the income from the investments to supplement her income.

6. Trusting Cross, Customer TH decided to mortgage her home. Cross introduced Customer TH to a mortgage broker he had known for many years.

7. With the assistance of the mortgage broker referred by Cross, Customer TH obtained a home mortgage in the amount of \$112,000 in October 2006. The loan had a term of 30 years and a fixed interest rate of 6.75 percent. Customer TH's monthly payments in the amount of \$630, consisting of interest only, were to commence on December 1, 2006. After the first 120 months (10 years), Customer TH's monthly payments were to increase to \$851.61.

8. Customer TH received mortgage proceeds totaling \$107,163.79 on approximately November 3, 2006.

9. On November 8, 2006, Cross opened an individual ONESCO brokerage account for Customer TH at Pershing. Cross completed the ONESCO new account form for Customer TH. The new account form falsely indicated that the source of funds was "Savings" and that Customer TH's total net worth was \$250,000, which was overstated because, in part, it did not reflect the mortgage liability. In addition, the new account form stated Customer TH's investment objective was "Income," and Customer TH was dependent on income from this investment for current living expenses.

10. On November 8, 2006, Customer TH sent \$96,000 of the mortgage proceeds to Pershing to fund her ONESCO brokerage account. Pershing received and credited Customer TH's deposit on November 10, 2006.

11. On or about November 14, 2006, Cross recommended and effected the purchase of \$60,000 of the Franklin Income Fund Class A shares (symbol FKINX) and \$30,000 of the Highland Floating Rate Advantage Fund Class A shares (symbol XSFRX), in Customer TH's ONESCO brokerage account. Customer TH paid sales

loads of 4.35 percent and 3.5 percent on the purchases of FKINX and XSFRX, respectively. The remaining \$6,000 was left in a money market fund. Cross marked the order ticket for Customer TH's purchase of FKINX and XSFRX as unsolicited.

12. The Highland Floating Rate Advantage Fund is a continuously offered, non-diversified, closed-end investment management company that invests in floating-rate bank loans. The fund's prospectus dated January 1, 2006, states in part:

The Fund does not intend to list its shares on any national securities exchange. SHARES OF THE FUND HAVE NO HISTORY OF PUBLIC TRADING AND THERE IS NOT EXPECTED TO BE ANY SECONDARY TRADING MARKET IN THE SHARES. An investment in the shares should be considered illiquid. . . .

* * *

The Fund's investment objective is to provide a high level of current income, consistent with preservation of capital. . . .

The Fund seeks to achieve its objective by investing, under normal market conditions, at least 80% of its net assets . . . in a portfolio of interests in adjustable rate senior loans of domestic or foreign borrowers, the interest rates of which float or vary periodically based upon a benchmark indicator of prevailing interest rates ("Senior Loans"), to corporations, partnerships and other entities ("Borrowers") that operate in a variety of industries and geographic regions

Senior Loans often are secured by specific assets of the Borrower, although the Fund may invest up to 20% of its total assets in Senior Loans that are not secured by any collateral. **The Fund may invest all or substantially all of its assets in Senior Loans that are rated below investment grade, or in comparable unrated securities.** [Emphasis added.] These securities are commonly referred to as high-yield, high-risk debt or "junk" debt.

13. The Highland Floating Rate Advantage Fund's policy was to make quarterly repurchases. The fund's risk rating was above average for its class.

14. At the time Cross recommended that Customer TH mortgage her home and purchase securities, Customer TH's only source of income was the approximate \$1,292 she had just started, or was about to start, receiving each month in social security income. Customer TH had no other income.

15. At the time Cross recommended that Customer TH mortgage her home and purchase securities, Customer TH's assets were limited to her house; an IRA variable annuity with a cash value of \$18,502.61 as of June 30, 2006, that Cross sold to

Customer TH in 2004; a cash death benefit in the amount of \$8,689.22 from an IRA variable annuity Cross sold to Customer TH's husband in 2004; cash totaling no more than \$6,816.00 in her checking account; and possibly life insurance proceeds totaling about \$11,000.00.

16. Customer TH would not have been able to purchase the recommended securities without the proceeds she received from the mortgage.

17. At the suggestion of the same mortgage broker Customer TH used to obtain the mortgage in October 2006, Customer TH refinanced her home in September 2009. The amount of the new mortgage was \$120,400, the term was thirty (30) years, and the fixed interest rate was 5.375 percent. Customer TH paid closing costs in the amount of \$8,802.73 in connection with the refinancing. Customer TH's monthly payment was reduced to \$539.20, consisting of interest only, for the first 120 months (10 years).

18. In October 2009, Customer TH's IRA variable annuity was fully surrendered.

19. As of August 31, 2010, the market value of Customer TH's ONESCO brokerage account had declined to approximately \$40,519 as a result of market losses exceeding \$35,000 and cash withdrawals for mortgage payments, living expenses and home repairs. In approximately September 2010, Cross informed Customer TH that she would run out of funds in her ONESCO brokerage account in about five (5) years.

20. As of May 31, 2011, the market value of Customer TH's ONESCO brokerage account was \$34,291.30. Of that amount, \$9,653.22 was in a money market fund and \$24,638.08 was in the Franklin Adjusted U.S. Government Securities Fund Class A shares (symbol FISAX).

21. As of May 31, 2011, Cross had received compensation totaling \$3,202.21 on the transactions in Customer TH's ONESCO brokerage account.

Failure to Supervise

22. ONESCO's Manual of Supervisory Procedures, dated April 2005, stated in part:

ONESCO General Prohibitions

A Registered Representative affiliated with [ONESCO] is advised that he/she may:

* * *

4. Not make recommendations of securities inconsistent with a customer's situation, needs, investment objectives, or risk tolerance.

* * *

10. Not arrange credit for customers in order that such customers can buy or sell securities. . . .

* * *

Internal Reports

* * *

(PR-56) Clients with at Least \$25,000 Invested in Multiple Fund Families over 12 Months:

This report shows clients with investments of at least \$25,000 with multiple fund families during a twelve month period. This report helps determine whether a representative is allocating money to other fund families when they could possibly be investing in the same family of funds to obtain a greater reduction of the sales charge. The report is also monitored for suitability and excessive account activity. This report is used in conjunction with PR-052.

Other Reports

In addition to the above listed reports, several other reports may be utilized to detect prohibited and/or unsuitable activity. The exception reports utilized to detect and prevent money-laundering activity may also yield information that could indicate prohibited practices. These reports are primarily used to detect money-laundering activity; however, should they indicate possible prohibited and/or unsuitable activity the transaction and/or account will be investigated immediately.

23. The transactions in Customer TH's account appeared on at least one internal report to be reviewed for suitability by ONESCO personnel.

24. The transactions in Customer TH's account were not investigated by ONESCO.

To the extent any of these Findings of Fact are more properly characterized as Conclusions of Law, they should be so considered.

Authorities

1. 660:11-5-42 of the Rules (effective July 1, 2004 through June 30, 2007) states, in pertinent part:

(a) Purpose. This rule is intended to set forth the standards of ethical practices for broker-dealers and their agents. Any noncompliance with the standards of ethical practices specified in this section will constitute unethical practices in the securities business; however, the following is not intended to be a comprehensive listing of all specific events or conditions that may constitute such unethical practices. The standards shall be interpreted in such manner as will aid in effectuating the policy and provisions of the Securities Act, and so as to require that all practices of broker-dealers, and their agents, in connection with their activities in this state shall be just, reasonable and not unfairly discriminatory.

(b) Standards.

(1) A broker-dealer and his agents, in the conduct of his business, shall observe high standards of commercial honor and just and equitable principles of trade. A broker-dealer and his agents shall not violate any federal securities statute or rule or any rule of a national securities exchange or national securities association of which it is a member with respect to any customer, transaction or business effected in this state.

(2) In recommending to a customer the purchase, sale or exchange of any security, the broker-dealer and his agents shall 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. Prior to making a recommendation to a customer a broker-dealer shall also make reasonable efforts to obtain information concerning the customer's financial background, tax status, and investment objectives, and such other information used or considered to be reasonable and necessary by such broker-dealer or registered agent in making such recommendation.

* * *

(22) The following standards shall apply to supervisory procedures:

(A) Each broker-dealer shall establish, maintain and enforce written procedures which will enable it to supervise properly the activities of each registered agent and associated person to assure compliance with applicable securities laws, rules, regulations and statements of policy promulgated by the Administrator and/or the Commission under the Securities Act.

(B) Final responsibility for proper supervision shall rest with the broker-dealer, the principal(s) of the broker-dealer registered in accordance with 660:11-5-11, and the principal(s) of the broker-dealer in each OSJ, including the main office, and the registered representatives in each non-OSJ branch office designated by the broker-dealer to carry out the supervisory responsibilities assigned to that office by the broker-dealer pursuant to the rules and regulations of the NASD. A copy of the written supervisory procedures shall be kept in each office of supervisory jurisdiction and each non-OSJ branch office.

(C) Each broker-dealer shall be responsible for keeping and preserving appropriate records for carrying out such broker-dealer's supervisory procedures. Each broker-dealer shall review and endorse in writing, on an internal record, all transactions and all correspondence of its registered agents pertaining to the solicitation or execution of any securities transaction.

2. 660:11-5-42 of the Rules (effective July 1, 2007) states, in pertinent part:

(a) Purpose. This rule is intended to set forth the standards of ethical practices for broker-dealers and their agents. Any noncompliance with the standards of ethical practices specified in this section will constitute unethical practices in the securities business; however, the following is not intended to be a comprehensive listing of all specific events or conditions that may constitute such unethical practices. The standards shall be interpreted in such manner as will aid in effectuating the policy and provisions of the Securities Act, and so as to require that all practices of broker-dealers, and their agents, in connection with

their activities in this state shall be just, reasonable and not unfairly discriminatory.

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representatives in each non-OSJ branch office designated by the broker-dealer to carry out the supervisory responsibilities assigned to that office by the broker-dealer pursuant to the rules and regulations of the NASD. A copy of the written supervisory procedures shall be kept in each office of supervisory jurisdiction and each non-OSJ branch office.

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3. Section 1-411 of the Act states, in pertinent part:

B. If the Administrator finds that the order issued is in the public interest and subsection D of this section authorizes the action an order issued under this act may revoke, suspend, condition, or limit the registration of a registrant and if the registrant is a broker-dealer or investment adviser, any partner, officer, or director, any person having a similar status or performing similar functions, or any person directly or indirectly controlling the broker-dealer or investment adviser. . . .

C. If the Administrator finds that the order is in the public interest and paragraphs 1 through 6, 8, 9, 10, 12 or 13 of subsection D of this section authorizes the action, an order under this act may censure, impose a bar, impose a civil penalty in an amount not to exceed a maximum of Five Thousand Dollars (\$5,000.00) for a single violation or Two Hundred Fifty Thousand Dollars (\$250,000.00) for multiple violations on a registrant, and/or recover the costs of the investigation from a registrant and if the registrant is a broker-dealer or investment adviser, from any partner, officer, or director, any person having a similar function or any person directly or indirectly controlling the broker-dealer or investment adviser.

D. A person may be disciplined under subsections A through C of this section if the person:

* * *

2. Has willfully violated or willfully failed to comply with this act or the predecessor act or a rule adopted or order issued under this act or the predecessor act within the previous ten (10) years;

* * *

9. Has failed to reasonably supervise an agent, investment adviser representative, or other individual, if the agent, investment adviser representative, or other individual was subject to the person's supervision and committed a violation of this act or the predecessor act or a rule adopted or order issued under this act or the predecessor act within the previous ten (10) years;

* * *

13. Has engaged in dishonest or unethical practices in the securities, commodities, investment, franchise, banking, finance or insurance business within the previous ten (10) years[.]

Conclusions of Law

1. Respondent Cross engaged in unethical practices in violation of 660:11-5-42 of the Rules by:

- a. recommending that Customer TH mortgage her home and purchase securities, particularly XSFRX, with the mortgage proceeds,
- b. reporting information he knew or should have known was false on Customer TH's ONESCO new account form,
- c. falsely representing that Customer TH's purchases of FKINX and XSFRX were unsolicited, and
- d. engaging in the prohibited conduct constituting violations of ONESCO's supervisory procedures.

2. Respondent ONESCO failed to reasonably supervise Respondent Cross, in violation of 660:11-5-42 of the Rules, by failing to effectively enforce ONESCO's written procedures.

3. The Administrator is authorized to suspend Respondent Cross's registrations under the Act, censure ONESCO, and impose civil penalties against Respondents, pursuant to Section 1-411 of the Act.

4. It is in the public interest for the Administrator to suspend Respondent Cross's registrations under the Act, censure ONESCO, and impose civil penalties against Respondents.

To the extent any of these Conclusions of Law are more properly characterized as Findings of Fact, they should be so considered.

WHEREFORE, it is recommended that the Administrator issue an order suspending Respondent Cross's agent and investment adviser representative registrations under the Act for thirty (30) business days, censuring ONESCO, imposing civil penalties in the amount of \$10,000 each against Respondents Cross and ONESCO, and imposing such other sanctions as deemed appropriate and authorized by law.

Dated this 25th day of January, 2012.

Respectfully submitted,



Terra Shamas Bonnell
Enforcement Attorney
Oklahoma Department of Securities
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Oklahoma City, OK 73102
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