

In the Matter of CONSULTING SERVICES GROUP, LLC, AND JOE D. MEALS, Respondents

ADMINISTRATIVE PROCEEDING File No. 3-12863

SECURITIES AND EXCHANGE COMMISSION

**SECURITIES EXCHANGE ACT OF 1934 Release No. 56612;
INVESTMENT ADVISORS ACT OF 1940 Release No. 2669**

October 4, 2007

ACTION: ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE- AND-DESIST ORDER PURSUANT TO SECTION 15(b) OF THE SECURITIES EXCHANGE ACT OF 1934 AND SECTIONS 203(e), 203(f) AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940

TEXT:

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act") against Consulting Services Group, LLC ("CSG") and pursuant to Section 15(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Sections 203(f) and 203(k) of the Advisers Act against Joe D. Meals ("Meals") (collectively, "Respondents").

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the "Offers") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Section 15(b) of the Securities Exchange Act of 1934 and Sections 203(e), 203(f) and 203(k) of the Investment Advisers Act of 1940 ("Order"), as set forth below.

III.

On the basis of this Order and Respondents' Offers, the Commission finds that:

Summary

1. These proceedings arise out of: (a) CSG's violation of Advisers Act Section 204 and Rule 204-2 thereunder and Rule 204A-1 (adopted under Advisers Act Sections 204A and 206(4)), in failing to adopt timely and to maintain accurate written acknowledgements by its supervised persons of their receipt of a code of ethics compliant with Rule 204A-1; (b) CSG's violation of Advisers Act Section 206(4) and Rule 206(4)-7 thereunder, in failing to adopt and implement written policies and procedures reasonably designed to prevent violation of the Advisers Act and the rules thereunder by CSG and its supervised persons; and (c) Meals' aiding and abetting and causing of CSG's violations.

Respondents

2. CSG is a Tennessee limited liability company headquartered in Memphis, Tennessee. CSG has been registered with the Commission as an investment adviser since its formation in 1990. CSG provides investment related consulting services to approximately 125 clients, many of which are institutional clients. The majority of CSG's institutional clients are public and private pension funds. The total assets of CSG's clients are approximately \$ 38 billion. CSG does not regularly provide discretionary money management services for its pension and other institutional clients. Instead CSG typically assists its institutional clients in discretionary money manager search and selection, asset allocation, performance measurement and review, and investment policy review and design.

3. Meals, age 52, is a resident of Memphis, Tennessee. Meals is a founding partner and shareholder of CSG. From May 1990 through November 2006, Meals served as the chief compliance officer for both CSG and its wholly owned broker-dealer affiliate, Trading Services Group, Inc. ("TSG").

Failure to Timely Adopt and Accurately Document Ethics Code

4. On January 20, 2004, the Commission issued a proposing release for Rule 204A-1 under the Advisers Act, which was to require all investment advisers to adopt a code of ethics designed to "reflect the adviser's fiduciary obligations and those of its supervised persons...." Investment Adviser Code of Ethics, Advisers Act Release No. 2209, 69 F.R. 4040, 4041 (Jan. 20, 2004). Rule 204A-1 was adopted by the Commission on July 2, 2004, becoming effective on August 31, 2004, with a revised compliance date of February 1, 2005. Investment Advisers Code of Ethics, Advisers Act Release No. 2256, 69 F.R. 41696 (Jul. 2, 2004). Registration under the Advisers Act of Certain Hedge Fund Advisers," Advisers Act Release No. 2333 (Dec. 2, 2004) at n. 274 (extending compliance date for Rule 204A-1).

5. In adopting Rule 204A-1, the Commission did not require investment advisers "to adopt a particular standard," and instead provided only a baseline level of compliance such that all investment adviser codes of ethics must, at a minimum, require that supervised persons: (1) adhere to applicable fiduciary obligations; (2) comply with applicable federal securities laws; (3) periodically report personal securities transactions; (4) report any violations of a firm's ethics code to designated firm personnel; and (5) execute a written acknowledgment of receipt of the firm's code of ethics. Investment Advisers Code of Ethics, Advisers Act Release No. 2256, 69 F.R. at 41697.

6. The Commission further amended the recordkeeping requirements of Rule 204-2 under the Advisers Act at subsection (a)(12) to require that investment advisers maintain, among other things, the code of ethics required under Advisers Act Rule 204A-1, records of violations of the code of ethics, and records of written acknowledgments by all supervised persons of the investment adviser. *Id.* at 41701.

7. Prior to the adoption of Rule 204A-1, CSG had maintained a code of ethics. CSG's existing code of ethics did not require supervised persons to execute a written acknowledgment of receipt of CSG's code of ethics, as required under Advisers Act Rule 204A-1. CSG did not amend its code of ethics to comply with Rule 204A-1 with respect to supervised persons executing written acknowledgments of receipt of CSG's code of ethics as of the required compliance date of February 1, 2005.

8. On March 11, 2005, following an examination of CSG that was completed during calendar year 2004, the Commission staff issued a deficiency letter to CSG, addressed to Meals as chief compliance officer. As the Commission staff's examination of CSG was completed prior to the required compliance date of Rule 204A-1, the March 11, 2005 deficiency letter did not cite CSG for violating Rule 204A-1, but did remind CSG of Rule 204A-1's recent adoption and required compliance date of February 1, 2005.

9. In response to receiving the Commission staff's deficiency letter in March 2005, Meals revised CSG's existing code of ethics in an effort to comply with Rule 204A-1. Meals also prepared written acknowledgments for receipt of CSG's ethics code to be executed by CSG's supervised persons.

10. In delivering the written acknowledgments to CSG's supervised persons, Meals, in March, April and May 2005, instructed CSG's supervised persons to date the written acknowledgment forms as of either

January 19 or 20, 2005, so as to indicate falsely that CSG had timely complied with the provisions of Advisers Act Rule 204A-1. At Meals' direction, all supervised persons employed by CSG as of February 1, 2005 - the required compliance date for Advisers Act Rule 204A-1 - dated their execution of written acknowledgments of receipt and review of CSG's revised code of ethics as of either January 19 or 20, 2005, when they had not in fact received and reviewed CSG's revised code of ethics until March 2005 at the earliest.

11. On June 9, 2005, the Commission staff requested that CSG provide it with all documents evidencing CSG's compliance with Advisers Act Rule 204A-1. Upon receiving the Commission staff's request, Meals obtained the remaining written acknowledgments from those supervised persons who had not responded to his earlier request, again instructing those supervised persons who were employed by CSG as of February 1, 2005 to date the written acknowledgment forms as of either January 19 or 20, 2005. When Meals had finished obtaining the executed written acknowledgments from all of CSG's supervised persons, CSG then produced all such written acknowledgments to the Commission staff.

12. As a result of the conduct described above, CSG willfully violated n1 Advisers Act Section 204 and Rule 204-2 thereunder and Rule 204A-1 (adopted under Advisers Act Sections 204A and 206(4)), and Meals willfully aided and abetted and caused such violations, by failing to adopt timely a code of ethics compliant with Rule 204A-1 and by failing to maintain accurate written acknowledgments by all supervised persons of their receipt of a code of ethics compliant with Rule 204A-1.

Failure to Adopt and Implement Written Policies and Procedures Reasonably Designed to Prevent Violations of the Advisers Act and the Rules thereunder

13. When CSG was initially formed in 1990, Meals purchased a pre-packaged written "Investment Adviser Policies and Procedures Manual" from a compliance outsourcing firm. This 1990 version pre-packaged policies and procedures manual was later supplemented with a copy of the 1989 version of the Advisers Act, Commission Release No. IA-1092 from 1987 regarding the scope of the Advisers Act, and an e-mail retention policy prepared in 2000.

14. On February 11, 2003, the Commission issued a proposing release for Rule 206(4)-7 under the Advisers Act, which was to require all investment advisers to adopt and implement written policies and procedures "reasonably designed to prevent violation" of the Advisers Act and the rules thereunder. Compliance Programs of Investment Companies and Investment Advisers, Advisers Act Release No. 2107, 68 F.R. 7038 (Feb. 11, 2003). Rule 206(4)-7 was adopted by the Commission on December 24, 2003, becoming effective on February 5, 2004, with a compliance date of October 5, 2004. Compliance Programs of Investment Companies and Investment Advisers, Advisers Act Release No. 2204, 68 F.R. 74714, 74715 (Dec. 24, 2003).

15. In adopting Advisers Act Rule 206(4)-7, the Commission described a flexible approach that could be taken by investment advisers, stressing that there was no "single set of universally applicable required elements" for an investment adviser's policies and procedures, and that instead "[e]ach adviser should adopt policies and procedures that take into consideration the nature of that firm's operations." Id. at 74716. In describing how advisers should actually design their policies and procedures, the Commission suggested that firms "should first identify conflicts and other compliance factors creating risk exposure for the firm and its clients in light of the firm's particular operations, and then design policies and procedures that address those risks." Id.

16. In September 2003, several months after the Commission's February issuance of the proposing release for Rule 206(4)-7, but prior to the adoption of the Rule in December 2003, Meals purchased an updated pre-packaged Investment Advisers Policies and Procedures Manual electronic template from a compliance outsourcing firm. Meals printed a hard-copy of the 2003 policies and procedures electronic template, made certain hand-written notes and lined through certain sections of the hard-copy, and finally appended the hand-notated copy to CSG's existing 1990 pre-packaged policies and procedures, the 1989 version of the Advisers Act, Commission Release No. IA-1092 from 1987, and the 2000 e-mail retention policy. As of October 5, 2004, the required compliance date with Advisers Act Rule 206(4)-7, these documents comprised the whole of CSG's written policies and procedures.

17. The pre-packaged policies and procedures manual and template that Meals purchased for CSG in 1990 and 2003 were designed for use by investment advisers offering discretionary money management services to clients - and were not designed for use by institutional or pension consultants. The pre-packaged policies and procedures manual and template failed to address adequately the conflicts of interest unique to CSG's operations as a pension consultant, and many of the sections within these generic forms were completely inapplicable and irrelevant to CSG's provision of advisory services to clients.

18. In adopting and implementing the pre-packaged manual and template for use as its written policies and procedures, CSG failed to undertake adequate efforts to identify the risk factors or specific conflicts that may have been applicable to its operations as a pension consultant; indeed such risk factors and conflicts were not addressed within the pre-packaged forms as purchased. For example, in adopting and implementing its pre-packaged policies and procedures, CSG gave no specific consideration to any of the potential conflicts of interest concerning the relationship between CSG and its wholly-owned broker-dealer subsidiary, TSG. CSG created TSG for the purpose of providing a commission recapture plan to clients. Under the commission recapture plan, CSG clients can have their trading executed through TSG, with a portion of the trading commissions generated by their investment activity used to directly offset the consulting fees charged by CSG. The commission recapture program creates multiple potential conflicts of interest in that it provides a financial incentive for CSG to refer clients to those discretionary money managers that utilize TSG as compared to other broker-dealers, or, that have a history of generating more commissionable activity than other discretionary money managers. No portion of the pre-packaged policies and procedures adopted and implemented by CSG adequately addressed the potential conflicts of interest concerning the use of TSG by the discretionary money managers CSG was recommending to advisory clients.

19. As a result of the conduct described above, CSG willfully violated Advisers Act Section 206(4) and Rule 206(4)-7 thereunder, and Meals willfully aided and abetted and caused such violations, by failing to adopt and implement written policies and procedures reasonably designed to prevent violation of the Advisers Act and the rules thereunder by its supervised persons.

20. During the Commission staff's investigation, CSG voluntarily retained an independent compliance consultant for the purposes of: (a) reviewing the effectiveness of existing written supervisory and compliance policies and procedures; (b) preparing additional written policies and procedures reasonably designed to prevent violation of the Advisers Act and the rules thereunder for adoption and implementation by CSG; (c) reviewing the adequacy of CSG's existing written disclosure statements with respect to potential conflicts of interest for use with actual and prospective clients; and (d) preparing additional written disclosure statements for CSG for use with actual and prospective clients. When CSG became aware of the extent of Meals' conduct in the context of Advisers Act Section 204 and Rules 204-2 and 204A-1 thereunder, CSG placed Meals on administrative leave and removed him from all compliance and supervisory roles. Following an independent investigation into Meals' conduct, CSG allowed Meals to return to the firm in the limited capacity of providing advisory services to his existing clients, while operating under heightened supervisory standards.

CSG's Remedial Efforts

21. In determining to accept the Offer, the Commission considered the remedial acts promptly undertaken by CSG and cooperation afforded the Commission staff.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondents' Offers.

Accordingly, pursuant to Section 15(b) of the Exchange Act and Sections 203(e), 203(f) and 203(k) of the Advisers Act, it is hereby ORDERED that:

A. CSG be, and hereby is, censured;

B. CSG cease and desist from committing or causing any violations and any future violations of Sections 204 and 206(4) of the Advisers Act and Rules 204-2(a)(12), 204A-1(a)(5) and 206(4)-7 promulgated thereunder;

C. CSG shall, within ten days of the entry of this Order, pay a civil money penalty in the amount of \$ 20,000 to the United States Treasury. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies CSG as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to M. Graham Loomis, Assistant District Administrator, Atlanta District Office, 3475 Lenox Road, Suite 500, Atlanta, Georgia 30326;

D. Meals be, and hereby is, censured;

E. Meals cease and desist from committing or causing any violations and any future violations of Sections 204 and 206(4) of the Advisers Act and Rules 204-2(a)(12), 204A-1(a)(5) and 206(4)-7 promulgated thereunder;

F. Meals shall, within ten days of the entry of this Order, pay a civil money penalty in the amount of \$ 10,000 to the United States Treasury. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies CSG as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to M. Graham Loomis, Assistant District Administrator, Atlanta District Office, 3475 Lenox Road, Suite 500, Atlanta, Georgia 30326;

G. Meals be, and hereby is, barred from association in a compliance capacity with any broker, dealer or investment adviser; and

H. Any reapplication for association by Meals will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against Meals, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

By the Commission.

Footnote

n1 "Willfully" as used in this Order, in the context of "willfully violated," means intentionally committing the act which constitutes the violation. Cf. *Wonsover v. S.E.C.*, 205 F.3d 408, 414 (D.C. Cir. 2000); *Tager v. S.E.C.*, 344 F.2d 5, 8(2d Cir. 1965). There is no requirement that the actor also be aware that he is violating one of the Rules or Acts.