

(FFIEC)  
**Federal Financial  
Institution Examination Council  
Supervisory Policy**

Revised 2012



1.800.937.2257 □ Fax 405.415.7392 □ [www.gobaker.com](http://www.gobaker.com)

Dear Client:

To assist you in meeting the supervisory policy requirements of the five national regulatory bodies comprising the Federal Financial Institution Examination Council regarding the selection of securities dealers, we have provided the following information in accordance with the supervisory agencies' specifications:

- Background Summary – Duties and Responsibilities
- Compliance – Qualifications and Requirements of a Broker/Dealer
- Annual Statement of Financial Condition
- References
- Regulatory and Clearing Agencies
- Regulatory Disciplinary Action Disclosure
- Biographies of The Baker Groups' Managing Directors
- Officers, Account Executives and Traders

Please do not hesitate to call our toll-free number 1-800-937-2257 if you have any questions or require further information.

Sincerely,

*The Baker Group LP*

## **Background Summary**

### **Duties and Responsibilities**

The Baker Group LP is a successor firm to James Baker & Company founded in 1979. The Baker Group LP is registered with the Securities & Exchange Commission as a general securities broker/dealer and is a member of the Financial Industry Regulatory Authority, the Securities Investment Protection Corporation, the Municipal Securities Rulemaking Board, and the Securities Information Center.

The Baker Group LP has been providing quality investment services to community banks nationwide since 1979. The firm is a leader in the development of innovative software and management reporting services for community banks. As an independently owned investment firm, The Baker Group specializes in products and programs to address emerging needs in the areas of:

- Portfolio Management
  - Broker / Dealer Services
- Software Solutions\*
  - IPA: Investment Portfolio Accounting
  - APM<sup>®</sup>: Advanced Portfolio Monitor<sup>®</sup>
  - IRRM<sup>®</sup>: Interest Rate Risk Monitor
  - BSM<sup>®</sup>: Balance Sheet Monitor<sup>®</sup>
- Financial Strategies Group
  - Strategic Planning
  - Regulatory Compliance and Policy Education
  - Investment Seminars
  - Quarterly Investment Strategies
  - Updated Investment and Asset/Liability Policies
  - Regular Online Educational Sessions

Since the early 1980's, The Baker Group LP has taken a leadership position in presenting investment management seminars. Regularly scheduled seminars are conducted to keep bank clients abreast of current market conditions, changing bank regulations, prudent security analysis and the introduction of new investment vehicles. Our staff has addressed numerous national and state banking associations and served on the faculty of various community banking schools.

#### The Baker Group LP

1. Executes, clears and settles securities transactions for clients;
2. Prepares and transmits confirmations of executed transactions to clients;
3. Prepares and sends monthly security and position statements to clients, as required;
4. Maintains the financial books and records required by law and by sound business practice

\* The Baker Group LP is the sole authorized distributor for the products and services developed and provided by The Baker Group Software Solutions, Inc.

# **Compliance**

## Qualifications and Requirements of a Broker/Dealer

### **Membership and Registration**

#### **Financial Industry Regulatory Authority Securities and Exchange Commission**

The Baker Group LP is a member of the Financial Industry Regulatory Authority. (FINRA) Membership in the FINRA entitles a firm to participate in the investment and over-the-counter securities business on a preferential basis to distribute new issues of securities of various kinds that are underwritten and sponsored by FINRA members. By accepting these privileges, every member is obligated to subscribe to the same standards of ethical conduct. As a condition for FINRA membership, a firm must be registered with the Securities and Exchange Commission (SEC).

#### **Securities Investor Protection Corporation**

Certain broker/dealers will also be subject to federal statutory provisions requiring them to become members of the Securities Investor Protection Corporation (SIPC). Essentially, all non-bank broker/dealers registered with the SEC whose principal business is conducted within the United States, its territories or possessions must become members of the SIPC. All firms that are required to become members of the SIPC must carry a blanket fidelity bond that meets the requirements as to form, amount and type of coverage specified.

#### **Municipal Securities Rulemaking Board**

All broker/dealers that are engaged in the offer and/or sale of municipal securities are obliged to comply with the rules and regulations of the Municipal Securities Rulemaking Board (MSRB)

#### **State Regulatory Authorities**

A firm is generally subject to the requirements of the securities law and registration requirements of any or all states where it conducts a securities business.

#### **Securities Information Center**

FINRA member firms, with few exceptions, are required to register as direct or indirect inquirers in the Securities Information Center's Lost and Stolen Securities Program.

## **Audits and Examinations by Regulatory Authorities**

The firm is subject to regular audits and examinations by FINRA, the SEC, and other regulatory authorities with which the firm is registered to conduct a securities business.

## **Net Capital Requirements**

The firm is subject to the Securities and Exchange Commission's Uniform Capital Rule (Rule 15c3-1) which requires the maintenance of minimum net capital.

## **Written Supervisory Procedures**

Article III, Section 27 of the FINRA Rules of Fair Practice requires a firm to establish, maintain and enforce written procedures that will enable it to properly supervise its employees' activities and to assure compliance with all applicable securities laws, rules and regulations, and the FINRA rules to which it is subject.

## **Personnel Requirements**

FINRA prescribes two levels of qualifications and registration for broker/dealer personnel:

1. Registered representatives, generally sales personnel.
2. Principals, generally officers of the firm and other management personnel involved in the day-to-day operations of the firm's investment banking or securities business. FINRA prescribes certain qualification requirements for members' senior management personnel.

Various personnel must demonstrate their competency to perform certain functions of the member's business operations by passing certain qualification tests. FINRA does not require registration of personnel performing certain support functions. The firm must comply with the continuing education program for securities dealers.

## **Financial Reporting**

Member firms are required to properly prepare and maintain certain books and records that are required pursuant to SEC Rules 17a-3 and 17a-4 for the type of securities business conducted.

Member firms are required to have their books and records examined annually by an outside auditing firm. This annual audited financial statements, as well as monthly and/or quarterly financial information, is required to be filed with the regulatory authorities on a timely basis.

# The Baker Group LP

## STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2011

### ASSETS

Cash	\$ 459,306
Federal funds sold	<u>11,127,000</u>
Total cash and cash equivalents	11,586,306
Securities segregated under federal and other regulations	333,566
Receivables from brokers and dealers	330,144
Securities owned, at fair value	44,560,854
Furniture and equipment, at cost, net of accumulated depreciation of \$2,279,480	264,869
Cash surrender value of life insurance policies	1,078,734
Other assets	<u>1,218,010</u>
<b>Total Assets</b>	<b>\$ <u>59,372,483</u></b>

### LIABILITIES AND PARTNERS' CAPITAL

Payable to brokers and dealers	\$ 29,798,884
Payable to customers	329,024
Distributions payable to partners	2,735,990
Accrued liabilities	<u>3,756,411</u>
Total Liabilities	\$ <u>36,620,309</u>
Partners' Capital:	
General Partner	9,688,071
Limited Partners	<u>13,064,103</u>
Total partners' capital	<u>22,752,174</u>
<b>Total liabilities and partners' capital</b>	<b>\$ <u>59,372,483</u></b>

## **REFERENCES**

References are available upon request.

Please call: 1.800.937.2257

## **Regulatory Agencies**

Mr. Thomas Hopkins  
Regulatory Controller  
Financial Industry Regulatory Authority. Risk Oversight & Operational Regulations  
One World Financial Center  
200 Liberty Street, 9<sup>th</sup> floor  
New York, NY 10281-1003

For Inquiries call:  
1.646.315.8807

## **Clearing Agencies**

John Vinci  
Managing Director  
The Bank of New York Mellon  
One Wall Street 41<sup>st</sup> Floor  
New York, New York 10286

Mr. Dean Schneider  
Legal Compliance  
Pershing LLC – Director Brokerage Services  
One Pershing Place, Ninth Floor  
Jersey City, New Jersey 07399



## Regulatory Disciplinary Action Disclosure

FINRA Member Firm:  
The Baker Group LP  
Broker/Dealer Number: 007888

### Disciplinary Actions

The Baker Group LP – Broker/Dealer

Fine and censure dated March 13, 2012

Details available at

<http://www.finra.org/Investors/ToolsCalculators/BrokerCheck/>

The Baker Group LP – Investment Advisor

None

## **Biographies**

**DAVID DAUGHERTY** is President and CEO and serves on the Board of Directors for The Baker Group LP. He has more than 25 years' investment experience with community banks. He works exclusively with community banks in the design and implementation of investment and asset/liability strategies. In the process, he evaluates interest rate risk exposure, duration analysis, and recommends specific investment instruments that help maximize the earnings need of the institution.

Before joining The Baker Group LP, David served as President and Director at a regional investment banking firm.

David has presented investment seminars across the country, most recently to the Community Bankers Association of Illinois, Community Bankers Association of North Dakota, and the Community Bankers Association of Indiana.

David holds a Bachelor of Business Administration degree in Finance from the University of Oklahoma. He is registered as an investment advisor, principal and representative with the Financial Industry Regulatory Authority (FINRA). He is also a registered principal with the Municipal Securities Rulemaking Board (MSRB). He is a past member of the FINRA Business Consultive Committee and a past member of the FINRA's 5<sup>th</sup> Business Conduct Committee and the FINRA's small firm's committee.

**RICK HANSING** is a Managing Director and serves on the Board of Directors for The Baker Group LP. He works with banks in the areas of investments and asset/liability management. He also assists clients in a broad range of other areas including education, portfolio management, interest rate risk management, strategic planning, liability and loan pricing, and regulatory and accounting issues.

Rick received his Bachelor of Business Administration Degree from the University of Oklahoma. He is a registered representative investment advisor and a General Securities Principal with the FINRA.

**ERIC HARLAND** is a Managing Director and serves on the Board of Directors for The Baker Group LP. He has more than 15 years investment experience as a fixed-income strategist working with Community Banks. He works with financial institutions in the design and implementation of key investment and asset/liability strategies. Eric offers assistance to clients in a broad range of areas including evaluation of interest rate risk and duration exposure, exam preparation, liquidity management, ALCO & Board education. Eric specializes in helping community banks develop these strategies while offering assistance in selection of investment instruments that maximize bank earnings and performance while meeting the overall risk management needs of each institution. Eric's focus is to develop strategies that build long-term shareholder value.

Originally from Oklahoma, Eric relocated his family to Springfield, IL in 1998 to open The Baker Group LP's new regional office. After ten years in Springfield he has relocated back to our headquarters in Oklahoma.

Eric regularly presents investment seminars across the country, most recently to the Community Bankers Association of Illinois, Western Illinois Association of Bank Management, as well as multiple CEO forums and bank groups. Eric has also served on the faculty of the Midwest School for Community Bankers teaching investment and asset/liability management.

He is a registered representative and general securities principal with the FINRA.

**CARL H. HOLLIDAY** is a Managing Director of The Baker Group LP. As a founding member, he serves on the Board of Directors and acts in the capacity of Vice President of The Baker Group LP since joining the firm in 1979. Carl is a registered investment advisor, principal and representative with FINRA and principal with the MSRB.

Carl works with institutional clients in structuring fixed-income and securities portfolios, utilizing his experience in the areas of asset/liability management, duration, security selection, financial trends, and liquidity risk analysis. Carl also works with individuals and trust accounts structuring their fixed-income portfolios based on their tax position and risk horizon.

In addition to the institutional clients, Carl is an equity portfolio manager structuring portfolios for high net worth individuals and foundations. This includes asset allocation responsibilities and stock selection.

Previously employed in the institutional investment department of a major Oklahoma bank, Carl was responsible for the portfolios of more than 100 correspondent banks. His responsibilities required knowledge of a number of investment areas including government and municipal bond trading, institutional sales, municipal underwriting, portfolio analysis, money market sales, cash management, and mortgage-back securities trading. Carl earned a Bachelor of Business Administration Degree in Finance from the University of Oklahoma. He is a graduate of the National School of Bank Investments.

**EDWARD A. KREI** is a Managing Director and serves on the Board of Directors of The Baker Group LP. He provides services relating to investment portfolio management, balance sheet strategies and strategic planning. He is a frequent speaker at banking and investment conferences. Ed is a faculty member of numerous banking schools and serves as an instructor for bank regulatory agencies.

Ed is a registered principal and representative with FINRA and principal with the MSRB. He received his Bachelor of Business Administration Degree in Accounting from the University of Mississippi and was gold medallist on the CPA examination in Tennessee.

**MIKE MACKEY** is a Managing Director and serves on the Board of Directors of The Baker Group LP. He works primarily with banks in areas of investments and asset/liability management. He also assists clients in a broad range of other areas including education, portfolio management evaluation, interest rate risk, strategic planning and regulatory issues.

Mike focuses on identifying the specific objectives of clients and tailoring investment portfolios to achieve their goals. In that process, he evaluates the relative values of a broad range of investment products and helps clients select those that compliment their investment portfolios.

Mike received his Bachelor's Degree in Oral Communications from the University of Central Oklahoma. He is registered as an investment advisor, principal and representative with FINRA and assists in the management of the Austin, Texas office.

**TERRY McELWEE** is a Managing Director and serves on the Board of Directors for The Baker Group LP. He works exclusively with community banks in the design and implementation of investment and asset/liability strategies. He also assists clients in a broad range of other areas including education, portfolio management evaluation, interest rate risk, strategic planning and regulatory issues.

Terry focuses on identifying the objectives of clients and then tailoring a long term strategic investment/asset liability plan. In that process, he evaluates the relative value of a broad range of investment products and helps clients select those that compliment their investment portfolios and overall balance sheet. Terry has presented investment and asset /liability seminars to many banking organizations including Community Bankers Association of Illinois.

Terry earned a Bachelor of Arts Degree in Political Science from The University of Illinois at Springfield. He is registered as a general securities representative and general securities principal with FINRA and assists in the management of the Springfield, Illinois office.

**DOUGLAS W. McQUEEN** is Chairman of the Board of The Baker Group LP. His knowledge of finance, banking and investments is well recognized in business communities. Doug joined the firm at its inception in 1979 as a Vice President and Director.

Doug's experience with the firm includes pioneering efforts in the development of the concept of asset/liability management, investment advisor and consultant. He works with individual and institutional accounts throughout the United States in the critical areas of portfolio management, evaluation of asset/liability exposure, liability and loan pricing, and hedging strategies. As a Managing Director, Doug is in charge of trading in U.S. Government securities, agencies and mortgage-backed securities.

Before joining the firm, Doug was an officer of a national bank in Oklahoma City where he handled the cash management position of the bank and was actively engaged in municipal and government bond sales, bond trading and municipal underwriting.

Doug earned a Bachelor of Science Degree in Business from the University of Colorado where he majored in accounting. He has also completed the bank investment course of the American Institute of Banking. Doug is a registered investment advisor, principal and representative with the FINRA and principal with the MSRB. In 1991 Doug was elected to serve as a member of the FINRA District No. 5 Business Conduct Committee.

**PHIL STENSETH, CFA** is a Managing Director of The Baker Group LP. He is responsible for directing the firm's fixed income trading operation. He is instrumental in the firm's development of bank investment portfolio and interest rate risk management strategies, researching new investment products, monitoring bank regulatory and compliance issues. Additionally, Phil has revised and continues to enhance the firm's proprietary software programs designed to assist clients in the management of their investment portfolio (APM) and the overall interest rate risk of the bank (IRRM).

Phil regularly conducts educational seminars for banking groups and associations nationwide. He has addressed various bank trade associations and serves as a faculty member of several national and regional banking schools. Phil has been frequently published in many banking journals and periodicals.

Phil holds a Bachelor of Science degree in Finance from the University of Arizona and is a Chartered Financial Analyst (CFA). He is a current member of the CFA Institute and the Oklahoma City Financial Analysts Society (FAS). Additionally, Phil is registered Municipal Securities Principal with the Municipal Securities Regulation Board (MSRB) as well as an Options and General Securities Principal with the Financial Regulatory Authority (FINRA).

**DANIEL R. TONSETH** is a Managing Director of The Baker Group LP and serves on the Board of Directors. He works with institutional accounts throughout the United States in the design and implementation of investment and asset/liability strategies. In that process, he evaluates interest rate risk exposure and duration analysis to recommend specific investment instruments that maximize the earnings needs of the institution.

Dan has conducted numerous educational seminars to banking associations and money managers nationwide, most recently to the Community Bankers Association of Indiana and the Picasso Group of Denver.

Dan earned a Bachelor of Science Degree in Business from Miami University where he majored in Finance. He is a registered investment advisor, a registered representative with the FINRA and general securities principal, with FINRA.

# The Baker Group's Office Locations

## **MAIN OFFICE**

1601 Northwest Expressway, Suite 2000  
Oklahoma City, Oklahoma 73118  
405.415.7200  
1.800.937.2257

1700 Rio Grande Street, Suite 120  
Austin, Texas 78701  
512.320.0307  
1.888.480.0301

8365 Keystone Crossing Blvd. Suite 100  
Indianapolis, Indiana 46240  
317.567.0016  
1.800.406.0016

2975 West Executive Parkway, Suite 139  
Lehi, Utah 84043  
801.990.1701  
1.800.288.9411

901 Community Drive  
Springfield, Illinois 62703  
217.241.0835  
1.888.333.7704

2204 Lakeshore Drive, Suite 213  
Birmingham, AL 35209  
1.855.550.4546

## Officers, Account Executives and Traders

Douglas W. McQueen	Chairman of the Board
David A. Daugherty	President and CEO
Rick Hansing	Managing Director
Eric Harland	Managing Director
Carl H. Holliday	Managing Director
Edward A. Krei	Managing Director
Mike Mackey	Managing Director
Terry McElwee	Managing Director
Philip C. Stenseth, CFA	Managing Director
Daniel R. Tonseth	Managing Director
Brian Affolder	Vice President and Account Executive
Charles Amis	Vice President and Account Executive
Brian Bates	Associate Partner and Account Executive
Tim Beloat	Associate Partner and Account Executive
John Bloss	Vice President Account Executive
Tyson Bullard	Account Executive
Jeff Caughron	Associate Partner and Account Executive
Ruth Carey	Vice President and Account Executive
Mike Crake	Vice President and Senior Trader
Taylor Currie	Account Executive
Ellen Donaldson	Vice President
Brown Douglas	Account Executive
Chris Dykstra	Account Executive
Susan K. Evans	Vice President and Chief Compliance Officer
Eric Fischer	Vice President and Trader
John Goodman	Associate Partner and Account Executive
Adam Goodrich	Vice President and Trader
Gerry Hart	Vice President and Account Executive
Ryan Hayhurst	Associate Partner
Buck Held	Account Executive
Ronald Hill	Associate Partner and Account Executive
Carl Huxley	Associate Partner and Account Executive
Mike Johnston	Vice President and Account Executive
Kenneth W. Judd	Vice President and Account Executive
Jantz Kinzer	Vice President and Account Executive
Justin Kinzer	Account Executive
Todd Mettenbrink	Vice President and Senior Trader
Roy Moore	Vice President and Account Executive
Lester Murray	Senior Vice President and Account Executive
Greg Nieto	Senior Vice President of Public Finance Division
Robert H. Northwood	Senior Partner
Steve Porter	Senior Partner
Dan Puckett	Senior Vice President
Jeff Oakes	Vice President and Account Executive
John Parker II	Vice President and Account Executive
Scott Peters	Associate Partner and Account Executive
Dan Pilcher	Vice President, Senior Trader, and Account Executive
Jason Rees	Account Executive
Gerry Skousen	Associate Partner and Account Executive
Craig Stanley	Senior Partner
Wayne Story	Vice President and Account Executive
Josh Swanson	Vice President and Account Executive
Jason Vlcek	Vice President and Account Executive
Jon Virostek	Associate Partner and Account Executive
Brenda Weaver	Vice President
Chris Wilson	Vice President
Kathryn P. Wilson	Associate Partner and Chief Financial Officer
Dee Wint	Vice President and Account Executive

**Traders**

Michael J. Crake  
Eric Fischer  
Adam Goodrich  
Douglas W. McQueen  
Todd M. Mettenbrink  
Dan Pilcher  
Philip C. Stenseth

**Education / Marketing / Conventions**

Jeff Caughron  
Laurie Claus  
Ryan Hayhurst  
Skoshi Heron  
Ed Krei  
Lester Murray

Kayli Smith  
Philip C. Stenseth  
Drew Simmons  
Chris Wilson