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Banks slapped with $1.65M in fines for improper VA and mutual fund sales

By Darla Mercado
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The Financial Industry Regulatory Authority Inc. has slapped Wells Fargo Investments LLC and four other investment firms with $1.65 million in fines for supervisory failures in mutual fund and variable annuity transactions.

The brokers involved sold variable annuities, mutual funds or unit investment trusts to bank customers, most of whom were elderly.

The five firms are Cleveland-based McDonald Investments Inc., which is now part of Zurich-based UBS AG; IFMG Securities Inc., which is now owned by LPL Financial of Boston; Wells Fargo Investments in San Francisco; PNC Investments LLC in Pittsburgh and WM Financial Services Inc., which is now part of Chase Investment Services Corp. in New York.

New York- and Washington-based Finra alleged that between June 2004 and January 2006, an ex-broker at McDonald made 32 unsuitable sales of variable annuities with enhanced death-benefit riders to 25 elderly customers. All of the customers were at least 78 years old and thus either too old for the rider or close to the age of ineligibility.

The firm was ordered to nix the transactions and return the clients' money. Finra also said that the company had placed the broker under heightened supervision, but under that oversight, the broker made all 32 of those improper sales and they were approved by the firm.

The broker and her supervisor are currently under investigation, according to Finra spokeswoman Nancy Condon.

McDonald was also charged with unsuitable variable annuity sales to the elderly.

Its former owner, KeyBanc Capital Markets Inc. of Cleveland, will pay the fine, a KeyBanc spokesman said.

At Purchase, N.Y.-based IFMG, which was fined $450,000, Finra revealed that the trade blotters the firm used to approve VA and mutual fund transactions lacked key information, such as the client's investment time horizon and risk tolerance.

IFMG's compliance department also reviewed documents about 10 days after the transaction to further assess suitability and ensure all paperwork was completed, leading to a massive backlog of unapproved transactions between 2004 and 2006.

At Wells Fargo and PNC, Finra found that the firms provided inadequate guidance to principals in charge of reviewing variable annuity sales.

Between 2004 and 2006 both firms gave principals client details to weigh when considering VA suitability, but never showed them how to use them in context in order to reach a decision, according to Finra's complaint.

Both firms were fined $275,000 each.

Finally, WM, which was fined $250,000, didn't have any procedures for determining suitability of unit investment trusts and didn't provide any guidance on how to review exception reports on exchanges from VAs and mutual funds to UITs.

The firms neither admitted nor denied their charges but consented to the entry of Finra's findings.

Spokesmen at Chase and PNC had no comment.

A spokeswoman at Wells Fargo said in an e-mail," We are glad to have resolved this matter with Finra and move forward from here. A KeyBanc spokesman said, "Key has agreed to the fine and will offer the affected clients the opportunity to close their annuity accounts, along with a full refund of the initial value of their purchase, plus interest and any surrender charges, adjusted for any withdrawals."

A spokesman at LPL said: "The activity in question occurred between 2004 and 2006. The holding company of LPL Financial acquired IFMG in November 2007. As a matter of policy, we do not comment on matters that did not involve our organization at the time they occurred. "