
Broker-Dealer Settles Charges for Disclosure Failures and Defective Account Statements.

A broker-dealer settled FINRA charges for (i) failing to disclose that certain corporate and municipal bonds held by its customers were in default and (ii) failing to deliver a number of required disclosures to its customers.

In a Letter of Acceptance, Waiver, and Consent, FINRA said that the broker-dealer distributed account statements to certain customers showing that some of the held bonds were making payments when they were actually in default. FINRA determined that the broker-dealer had notice of the defaults, but the account statements did not reflect this information. In failing to maintain accurate records for these bonds, FINRA found that the broker-dealer violated FINRA Rule 4511 ("Books and Records Requirements — General Requirements") and MSRB Rule G-8 ("Books and Records to be Made by Brokers, Dealers, and Municipal Securities Dealers and Municipal Advisors").

FINRA concluded that the firm failed to deliver certain (i) privacy disclosures in violation of Regulation S-P ("Privacy of Consumer Financial Information and Safeguarding Personal Information"), (ii) order execution notices in violation of SEC Regulation NMS Rule 242.606 ("Disclosure of order routing information"), and (iii) margin disclosures in violation of FINRA Rule 2264 ("Margin Disclosure Statement"). FINRA found that the firm had inadequate supervisory systems, violating FINRA Rule 3110 ("Supervision") and MSRB Rule G-27 ("Supervision").

To settle the charges, the broker-dealer agreed to (i) a censure, (ii) a civil monetary penalty of $850,000 ($300,000 pertaining to the MSRB rule violations) and (iii) undertake improvements to its notice and disclosure processes.

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