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Wells Fargo Clearing Fined \$1.25M For 493 Muni Bond Trade Violations.

Wells Fargo Clearing Services agreed to pay a \$1.25 million fine and accept a censure from the Financial Industry Regulatory Authority for failing to properly resolve 493 municipal securities trades across a seven-year stretch, according to a settlement letter released last week.

According to the letter, Wells Fargo Clearing Services, a broker-dealer subsidiary of Wells Fargo, failed to close out hundreds of inter-dealer municipal bond transactions on time and did not promptly obtain possession or control of customer securities tied to those trades.

The violations spanned more than seven years, from November 2016 through November 2023, and involved \$14.4 million in municipal securities.

The clearing service neglected to cancel or close out 209 failed inter-dealer transactions in municipal securities totaling approximately \$6.5 million, the letter said. During the same period, Wells Fargo also failed to timely deliver 106 municipal securities totaling about \$3.8 million.

“We are pleased to resolve this matter,” said Meghan McDonald, Wells Fargo’s lead communications consultant in wealth and investments, adding that the firm updated the relevant supervisory procedures when the deficiencies were discovered.

Broker-dealers are required to cancel or close out failed inter-dealer municipal securities transactions within a maximum of 20 calendar days after settlement, including any permitted extensions, the letter said. The rule is designed to reduce systemic risk and prevent unresolved trades from lingering on firms’ books.

Roughly half of the firm’s failed trades remained unresolved for more than 50 days, well beyond the regulatory limit.

As part of the settlement, Wells Fargo consented to the findings without admitting or denying the allegations. The \$1.25 million penalty includes \$937,500 tied to violations of MSRB Rules G-12 and G-27, which governs supervisory systems.

Although firms do have several options to close out failed trades—including buy-ins, substitutions with comparable securities, or repurchase transactions—Finra said Wells Fargo relied primarily on repeated buy-in attempts even when those attempts were unsuccessful and unlikely to resolve the positions within the required timeframe.

In addition to the close-out failures, the authority said the firm violated customer protection rules by failing to promptly obtain physical possession or control of municipal securities when customer accounts were left “short” due to failed trades.

From 2016 through 2023, Wells Fargo failed to take timely steps to obtain possession or control of 178 municipal securities positions totaling approximately \$4.1 million that had remained unsettled

for more than 30 calendar days, according to the settlement letter.

Finra also cited supervisory breakdowns as a key factor in the violations. The firm failed to establish and maintain a supervisory system, including written supervisory procedures, reasonably designed to ensure compliance with municipal close-out rules and customer protection requirements.

Specifically, Wells Fargo's written procedures did not provide adequate guidance on available close-out options or effectively track whether failed inter-dealer transactions were being resolved on time.

The deficiencies were uncovered during a routine Finra examination of the firm, the letter said.

The letter said Wells Fargo updated its systems and revised its written supervisory procedures in December 2023 to address municipal trade fails and document the changes.

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