
Broker-Dealer Settles FINRA Charges for Systemic Supervisory Failures.

A broker-dealer settled FINRA charges for systemic failures, including failing to establish (i) a reasonable supervisory system for its mutual fund and municipal bond businesses, and (ii) a reasonable system of supervisory controls to verify its surveillance systems.

In a Letter of Acceptance, Waiver and Consent, FINRA found that the firm's automated surveillance system, which identified and flagged for review Class A Share switches, did not provide the critical data needed to evaluate the suitability of a transaction, such as the holding periods of the Class A Shares. FINRA found that the firm allowed its supervisors to clear alerts that were missing information significant to a suitability determination after obtaining an explanation from the registered representative but without further investigation.

FINRA also found that the firm (i) did not address suitability reviews specific to municipal bonds in its written supervisory procedures and (ii) failed to conduct a heightened review of a broker's short-term trading of Puerto Rican municipal bonds, which carried additional risks due to the restructuring of Puerto Rican debt. As a result, the firm violated FINRA Rule 3110 ("Supervision") and MSRB Rules G-27(b) and (c).

With regard to supervisory controls, FINRA stated, the firm's annual tests did not examine whether the system for supervising two active business lines (mutual funds and municipal bonds) was reasonably designed to achieve compliance with FINRA and MSRB suitability rules, in violation of FINRA Rule 3120 ("Supervisory Control System") and MSRB Rule G-27(f).

The above-mentioned conduct is also a violation of FINRA Rule 2010 ("Standards of Commercial Honor and Principles of Trade").

To settle the charges, the firm agreed to (i) a censure, (ii) a $750,000 fine (including $225,000 for the MSRB Rule G-27 violations) and (iii) an undertaking to certify the implemented supervisory systems.

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