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FINRA Fines Wells Fargo Clearing Services \$137.5k for Alleged Violations Related to Unregistered Advisor Activity.

Wells Fargo Clearing Services has agreed to pay \$137,500 to settle a Financial Industry Regulatory Authority allegation that the firm violated a municipal securities rule by failing to set up and maintain a supervisory system reasonably designed to achieve compliance with federal securities laws that ban unregistered municipal advisory activity.

The \$137,500 fine for allegedly violating Municipal Securities Rulemaking Board Rule G-27 was part of a \$275,000 total fine imposed on the St. Louis, Mo.-based firm by FINRA, which also alleged certain FINRA rule violations.

Wells Fargo (WFC) was also censured, according to a settlement document accepted by FINRA on Aug. 11. The firm consented to FINRA's findings without admitting or denying them, the document said.

FINRA found that from at least June 2019 to November 2024, Wells Fargo (WFC) failed to set up and maintain a supervisory system - including written supervisory procedures - "that was reasonably designed to achieve compliance with Section 15B(a)(1)(B) of the Securities Exchange Act of 1934, which prohibits unregistered municipal advisory activity," according to the document.

That section of the Exchange Act prohibits broker-dealers from providing advice to municipal entities concerning, among other things, investing proceeds from the issuance of municipal securities "unless the broker-dealers are registered as a municipal advisor, with certain inapplicable exceptions," the document said.

"In Regulatory Notice 19-28, FINRA reminded members that if they are not registered as municipal advisors yet hold or transact in municipal entities' accounts, they must establish and maintain a supervisory system and WSPs that are reasonably designed to detect and prevent investment-related activities that would require registration as a municipal advisor," the settlement document said.

During the period from at least June 2019 to November 2024, "Wells Fargo (WFC) had hundreds of municipal entity customers who transacted in municipal and non-municipal securities in their firm accounts, but the firm was not registered as a municipal advisor," the document said.

The firm didn't establish and maintain a supervisory system - including WSPs - that was reasonably designed to ensure that the investment-related activities of the firm and its associated persons didn't require Wells Fargo (WFC) to register as a municipal advisor.

While Wells Fargo's (WFC) WSPs prohibited its associated persons from advising municipal entities about investing proceeds from the issuance of muni securities, the firm didn't supply guidance to its associated persons about what constituted providing such advice and what other activities require registration as a municipal advisor, the document said.

The firm also lacked any process for identifying whether deposits in municipal entities' accounts

were proceeds from the issuance of municipal securities and didn't institute controls to detect and prevent associated persons from advising municipal entities on how to invest proceeds from the issuance of muni securities, the document said.

"While Wells Fargo (WFC) relied on provisions in its client account agreement and disclosures provided to customers in their year-end account statements to help ensure municipal entities were not depositing proceeds from the issuance of municipal securities, these provisions and disclosures were not prominent," the document said, adding that the firm "did not otherwise take reasonable steps to ensure that its services for municipal entities did not include providing advice on the investment of proceeds from the issuance of municipal securities and thus constitute municipal advisory activity."

Through its failure "to establish and maintain a reasonable supervisory system and procedures, Wells Fargo (WFC) violated MSRB Rule G-27," the settlement document said.

In November 2024, the firm "took steps to modify its supervisory system, including its WSPs, relating to municipal advisory activity," the settlement document said.

The firm did not immediately respond to a request for comment.

By Kathie O'Donnell

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