

**MEMO# 6323**

October 21, 1994

## **SEC SANCTIONS BROKER WITH RESPECT TO BANK MUTUAL FUND SALES ACTIVITIES**

October 21, 1994 TO: BANK INVESTMENT MANAGEMENT MEMBERS NO. 30-94 BOARD OF GOVERNORS NO. 109-94 SEC RULES MEMBERS NO. 74-94 RE: SEC SANCTIONS BROKER WITH RESPECT TO BANK MUTUAL FUND SALES ACTIVITIES

\_\_\_\_\_ The Securities and Exchange Commission recently sanctioned a securities salesman for a bank-affiliated broker-dealer with respect to the salesman's mutual fund sales activities. A copy of the Commission's order is attached. The Commission found that the salesman solicited the bank's customers to transfer their bank deposits to shares of certain mutual funds by the use of sales sheets that the salesman had prepared. The salesman allegedly had placed copies of the sales sheets in three bank branches without supervisory approval. The Commission also found that the sales sheets were false and misleading in several respects. For example, they contained yield figures that were not computed according to statutory requirements and failed to disclose the time periods to which they corresponded. In most cases, the quoted yield figures exceeded the yields actually generated by the funds during the previous year. The Commission found that these activities violated the antifraud provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934, as well as certain provisions of the Investment Company Act of 1940. Without admitting or denying the Commission's findings, the securities salesman agreed to cease and desist from further violations of those provisions, to a censure, and to a twelve-month suspension. We shall keep you informed of future enforcement cases of this type. Paul Schott Stevens General Counsel Attachment