

MEMO# 9906

May 6, 1998

SEC SANCTIONS BANK AND ITS AFFILIATED BROKER-DEALER IN CONNECTION WITH SALES OF CLOSED- END BOND FUNDS

1 See In the Matter of NationsSecurities and NationsBank, N.A., Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Sections 15(b)(4) and 21C of the Securities Exchange Act of 1934 and Findings and Order of the Commission, Securities Act of 1933 Release No. 7532 and Securities Exchange Act of 1934 Release No. 39947 (May 4, 1998). 2 Simultaneous with the issuance of the SEC order, NASD Regulation, Inc. issued a settled order imposing a \$2 million fine on the broker-dealer and the Office of the Comptroller of the Currency issued a settled order imposing a \$750,000 civil money penalty on the bank in connection with the sales of the closed-end bond funds. NASD Regulation, Inc. also fined three of the broker-dealer's officers. [9906] May 6, 1998 TO: ADVERTISING COMPLIANCE SUBCOMMITTEE No. 18-98 CLOSED-END INVESTMENT COMPANY MEMBERS No. 12-98 COMPLIANCE ADVISORY COMMITTEE No. 14-98 SEC RULES MEMBERS No. 31-98 BANK MUTUAL FUND TASK FORCE RE: SEC SANCTIONS BANK AND ITS AFFILIATED BROKER-DEALER IN CONNECTION WITH SALES OF CLOSED-END BOND FUNDS

The Securities and Exchange Commission recently settled administrative proceedings and imposed sanctions against a bank and its subsidiary broker-dealer in connection with the sale of two closed-end bond funds.¹ A copy of the order is attached. According to the SEC's order, some of the broker-dealer's registered representatives used materially false and misleading sales practices, including mischaracterizing the closed-end funds as straightforward U.S. Government bond funds, when in fact they were highly leveraged and invested in interest-rate sensitive derivatives. The order also alleges that the bank failed to implement adequate measures to avoid the potential for customer confusion inherent in the operation of a broker-dealer on bank premises. The order states that some of the bank's and broker-dealer's employees engaged in sales practices that blurred the distinction between the bank, the broker-dealer and their respective products, which led to unsuitable purchases by investors. The order finds that the broker-dealer violated Section 17(a) of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934, and failed to reasonably supervise its registered representatives, and that the bank was a cause of certain of the broker-dealer's violations. Without admitting or denying the allegations, the bank and broker-dealer agreed to the imposition of cease-and-desist proceedings against both parties and a \$4 million civil penalty against the broker-dealer.² Amy B.R. Lancelotta Senior Counsel Attachment Note: Not all recipients of this memo will receive an

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