Stifel to Pay $3.6 Million for Unsuitable UIT “Switching” Sales - AdvisorHub

by Mason Braswell

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Sign on the building of Financial Industry Regulatory Authority in Manhattan. ablokhin |stock.adobe.com

The Financial Industry Regulatory Authority’s crackdown on allegedly improper sales of Unit Investment Trusts hit Stifel Nicolaus on Thursday, which agreed to pay more than $3.6 million for issues related to premature UIT rollovers.

The St. Louis-based firm, without admitting or denying the industry self-regulator’s findings, agreed to a censure and to repay $1.9 million in overcharges to more than 1,700 customers and pay a $1.75 million fine for allegedly giving inaccurate information on the costs of rollovers and for related supervisory violations.

Finra began conducting targeted exams of sales of UITs, which include creation and development fees along with initial and deferred charges, in 2016, and highlighted its concerns in subsequent examination priority letters sent to its member firms.

Stifel’s automated alert system failed to detect potentially unsuitable early rollover transactions from January 2012 through December 2016, Finra said. Recommendations to sell a UIT before its typical two-year maturity date for another with almost identical investment features can yield advisors extra commissions of at least 2.95%, according to Finra.

It also said that the Stifel Financial broker-dealer sent letters to around 600 customers that understated their switching costs by about 49% (specifying $1,000 instead of $1,969), or simply failed to discuss them.

Stifel had been aware of problems with early-sales alerts in its primary automated supervisory system since at least April 2012 but failed to inform branch managers, Finra said. Its backup alternative system was poorly designed and stopped functioning in 2015, it said.

“Firms must have an adequate supervisory system in place to detect potentially unsuitable UIT rollovers, and also provide customers with accurate information so they can make informed decisions about those rollover recommendations,” Finra enforcement head Jessica Hopper said in a statement.

A spokesman at Stifel, which has around 2,100 brokers, declined to comment.

Large and small firms have agreed to similar sanctions over UIT sales.

Finra fined independent broker-dealer Cambridge Investment Research $150,000 earlier this year for ignoring alerts to supervisors about short-term trading in UITs. Oppenheimer & Co. in a December 2019 settlement agreed to pay $3.87 million in restitution to customers. Morgan Stanley in 2017 was fined $3.5 million and ordered to reimburse customers almost $10 million to customers.

The Securities and Exchange Commission also has focused on UITs. Raymond James Financial last year agreed to a $15 million settlement with the regulator for, among other allegations, overcharging customers more than $6 million for UIT trades.