

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2014039843501**

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: Ameriprise Financial Services, Inc.
CRD No. 6363

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Ameriprise Financial Services, Inc. ("AFSI") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against AFSI alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

AFSI has been a FINRA member firm since 1972. AFSI conducts a general securities business with its principal office in Minneapolis, Minnesota. AFSI employs over 14,000 registered individuals and maintains over 3,800 branch offices.

OVERVIEW

From January 2010 through April 2013 ("the relevant time period"), AFSI participated in the sale of initial public offerings of Closed End Funds ("CEFs"). CEFs are generally intended for use as long-term investments. Sales charges to the customers who purchased at the time of the initial public offering ("IPO") are built into the offering price of the CEF; in most cases, the market price of the CEFs generally declines after the initial offering. Despite being aware that CEFs purchased at the IPO offering were most suitable for long-term investments and that the sales charges applied to purchases at the IPO made short-term trading of these CEFs generally unsuitable, AFSI failed to establish and maintain a supervisory system reasonably designed to detect and prevent at least one of its registered representatives from engaging in unsuitable short-term trading of CEFs purchased at the IPO.

By virtue of the above, AFSI violated NASD Rule 3010 and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

CEFs Generally

A CEF (also known as a closed-end investment company) is a type of investment company that pools money from investors to buy securities. CEFs are similar to mutual funds in that they professionally manage portfolios of stocks, bonds or other investments. Unlike mutual funds, which continuously sell newly issued shares and redeem outstanding shares, most CEFs offer a fixed number of shares in an IPO that are then traded on an exchange.

Some of the traditional and distinguishing characteristics of CEFs are:

- The price of CEF shares that trade on a secondary market after their IPO is determined by the market and may be greater or less than the shares' net asset value (NAV).
- CEF shares generally are not redeemable.
- CEFs are permitted to invest in a greater amount of "illiquid" securities than are mutual funds. (An "illiquid" security generally is considered to be a security that cannot be sold within seven days at the approximate price used by the fund in determining NAV.) Because of this feature, funds that seek to invest in markets where the securities tend to be more illiquid are typically organized as CEFs.

When an investor buy shares in a CEF *via* the IPO, the IPO price includes a "built-in" sales charge of up to 5 percent of the price that goes to the broker, plus a separate amount for the offering expenses. After a CEF goes public, an investor can buy shares in the secondary market on an exchange, paying the traditional fees that a broker charges for this type of transaction. Due to the up-front fee, in the secondary market, CEFs have historically traded at a discount to NAV—that is, at a market price lower than the fund's NAV.

One regulatory concern relating to CEFs is the potential for registered representatives to earn high fees by soliciting their customers to purchase CEFs at the IPO and sell them shortly after the expiration of the penalty bid period, in order to use the proceeds to purchase another CEF at the IPO.

AFSI's CEF Offerings

AFSI registered representatives' trading activity was supervised by registered principals in the Centralized Supervision Unit ("CSU"), a group of Registered Principals assigned exclusively to supervisory tasks. Field Registered Principals directly supervised AFSI registered representatives, and were responsible for determining discipline. The CSU

Registered Principals were tasked with reviewing transactions, including purchases of CEFs at the IPO.

Prior to participating in CEF offerings, AFSI registered representatives and the registered principals responsible for supervising these transactions were required to participate in an online training module. The training module provided that “IPOs of CEFs are typically not designed for short-term trading” and that “[s]elling shares of a CEF shortly after the IPO may not be beneficial to the client,” however, the module did not provide specific guidance on what constituted short-term trading.

In advance of the Firm’s participation in syndicate offerings, a Compliance Bulletin was published in October 2009 that alerted CSU Registered Principals to review purchase and sales transactions “to determine if inappropriate short-term trading is occurring.” While the bulletin provided guidance regarding a number of factors that should be considered by CSU Registered Principals where sales of new issue CEFs occurred in less than a year, including length of holding period, client rationale for sale, positions purchased with sales proceeds, and overall account activity for a pattern of short-term trading or switching, the bulletin did not specifically indicate what constituted short-term trading. CSU Registered Principals were also provided with email notifications in advance of a CEF IPO. Some of the emails reminded the CSU Registered Principals to “look for source of funds on the purchase to confirm that a recently purchased loaded/concession based product was not liquidated in order to purchase this syndicate.” However, some of the later email notifications did not contain language reminding CSU Registered Principals to review trades for source of funds. As described in more detail below, while AFSI provided certain guidance to its Principals, the Firm failed to establish and maintain a supervisory system reasonably designed to prevent unsuitable short-term trading of CEFs purchased at the IPO.

AFSI Failed To Reasonably Supervise Sales of CEF IPOs

Throughout the relevant period, AFSI failed to establish and maintain a system and procedures that were reasonably designed to supervise its registered representatives’ sales of CEFs to their customers. Despite being aware that CEFs purchased at the IPO were most suitable for long-term investments, and that the sales charges applied to purchases at the IPO made short-term trading of these CEFs generally unsuitable, the Firm did not have a system and procedures reasonably designed to detect and prevent potentially harmful short-term trading of CEFs. As a result, the Firm failed to detect and prevent at least one of its registered representatives from engaging in a pattern of unsuitable short-term trading of CEFs purchased at the IPO.

Specifically, from approximately April 2010 through November 2011, former AFSI registered representative MH engaged in a pattern of recommending short-term trading of CEFs at the IPO in connection with at least sixteen customer accounts. On two occasions, in September 2010, and again in May 2011, MH’s activity was flagged by CSU Registered Principals responsible for reviewing the trading. However, on each occasion, no demonstrable action was taken, as the CSU Registered Principals’ attempts

at escalation were not properly acted upon, indicating that the Firm was not adequately supervising this type of transaction. In November 2011, a CSU Registered Principal again flagged MH's activity, and this time an investigation of MH's recommendations of CEFs was undertaken. That investigation ultimately led to MH's termination.¹

In addition, prior to April 2013, the Firm did not utilize any surveillance reports designed to highlight or detect patterns of short-term trading or switching of CEFs. While CSU Registered Principals generally reviewed CEF IPO transactions, and had the ability to establish filters in the supervisory review tool for purposes of detecting potentially unsuitable patterns, use of these filters was not required.

Based on the above, AFSI failed to establish, maintain, and enforce a supervisory system and written supervisory procedures reasonably designed to ensure compliance with applicable laws and regulations relating to the suitability of short-term trading of CEFs at the IPO. This supervision deficiency violates NASD Rule 3010 and FINRA Rule 2010.

OTHER FACTORS

In determining the appropriate sanctions, FINRA considered that AFSI ultimately identified the pattern of short-term trading by MH, conducted an internal investigation and promptly terminated him. Following the investigation and termination, AFSI enhanced its supervisory system and created a surveillance report to aid registered principals in supervising CEF transactions.

- B. Respondent also consents to the imposition of the following sanctions:
a censure and a \$100,000 fine.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim that the firm is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

¹ A FINRA action against the individual registered representative was resolved by AWC. See AWC, No. 2012032915101, April 13, 2015.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against it;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudice of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Respondent understands that:

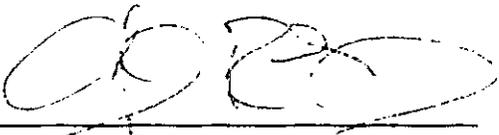
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;

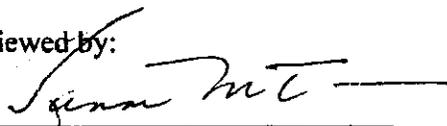
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent;**
- C. If accepted:**
- 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;**
 - 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;**
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and**
 - 4. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.**
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.**

The undersigned, on behalf of the firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that the firm has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

Ameriprise Financial Services, Inc.

6-9-16
Date (mm/dd/yyyy)

By: 
Christopher R. Long
Vice President and Chief Counsel, Regulatory

Reviewed by:

Suzanne M. Taylor
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Accepted by FINRA:

6/20/2016
Date

Signed on behalf of the
Director of ODA, by delegated authority


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