

## NASD fines Raymond James for lax supervision of producing branch managers

Wisconsin-based branch manager barred for making unsuitable recommendations to retirees

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By James Langton

The National Association of Securities Dealers today announced that it has fined Raymond James Financial Services Inc. US\$2.75 million for failing to maintain an adequate supervisory system to oversee the sales activities of over 1,000 producing branch managers.

In a related action, NASD permanently barred one of those branch managers for recommending unsuitable mutual fund and variable annuity purchases to elderly or retirement age customers, and making misleading statements to customers in correspondence. The regulator said that RJFS failed to detect these sales practice abuses because of deficiencies in its supervisory system. RJFS also failed to have an adequate system in place to properly supervise sales of variable annuities, it said.

Neither the firm nor the former manager admitted or denied the charges, but consented to the entry of NASD's findings.

"RJFS's supervisory system was inadequate because it allowed producing branch managers to supervise themselves, said James Shorris, NASD's executive vice president and head of enforcement. "This flawed supervisory system created a situation where the unsuitable sales of variable annuities and risky mutual funds to elderly and risk-averse customers went undetected."

From early 2000 through September 2004, RJFS employed over 1,100 producing managers, most of whom worked in small, geographically dispersed offices. These branch managers were allowed to act as the primary supervisors of their own business activities. They approved their own transactions, opened and accepted new accounts, and reviewed their own correspondence.

The firm relied on an electronic transaction surveillance system maintained by its compliance department, and a series of exception reports, to flag transactions that required further review. It also assigned supervisory responsibility for these 1,100 branch managers to three sales managers. The activities commonly associated with daily supervision, however, were conducted by the branch managers, who in many cases, in effect, supervised themselves, the NASD said. By permitting these principals to engage in self-supervision, RJFS's supervisory system was not reasonably designed to achieve compliance with securities rules and regulations, it found.

The NASD also found additional supervisory deficiencies at RJFS. The firm failed to maintain an adequate system and written procedures to reasonably supervise sales of variable annuities, and it also found deficiencies in the firm's branch audit program, and found that RJFS failed to maintain certain books and records.