
Edward Jones to pay \$20 million SEC fine

By Editorial Staff Thu, Aug 13, 2015

Instead of offering bonds to customers at the initial offering price, Edward Jones and Stina R. Wishman took new municipal bonds into the firm's own inventory and improperly offered them to customers at higher prices, the SEC found.

St. Louis-based brokerage firm Edward Jones and the former head of its municipal underwriting desk have agreed to settle charges that they overcharged customers in new municipal bonds sales, the SEC announced this week.

In the SEC's first case against an underwriter for pricing-related fraud in the primary market for municipal securities, the firm also was charged with separate misconduct related to supervisory failures in its review of certain secondary market municipal bond trades.

An SEC investigation found that instead of offering bonds to customers at the initial offering price, Edward Jones and Stina R. Wishman took new bonds into Edward Jones' own inventory and improperly offered them to customers at higher prices. Municipal bond underwriters are required to offer new bonds to their customers at what is known as the "initial offering price," which is negotiated with the issuer of the bonds.

In other instances, Edward Jones entirely refrained from offering the bonds to its customers until after trading commenced in the secondary market, and then offered the bonds at prices higher than the initial offering prices.

The firm's customers paid at least \$4.6 million more than they should have for new bonds. In one instance, the misconduct resulted in an adverse federal tax determination for an issuer and put it at risk of losing valuable federal tax subsidies.

Edward Jones agreed to settle the case by paying more than \$20 million, which includes nearly \$5.2 million in disgorgement and prejudgment interest that will be distributed to current and former customers who were overcharged for the bonds. Wishman agreed to pay \$15,000 and will be barred from working in the securities industry for at least two years.

According to the SEC's order instituting a settled administrative proceeding against Edward Jones, the firm's supervisory failures related to dealer markups on secondary market trades that involved the firm purchasing municipal bonds from customers, placing them into its inventory, and selling them to other customers often within the same day. Because of the

short holding periods, the firm faced little risk as a principal and almost never experienced losses on these intraday trades. The SEC's investigation found that Edward Jones' supervisory system was not designed to monitor whether the markups it charged customers for certain trades were reasonable.

Edward Jones consented to the SEC order without admitting or denying the findings and undertook a number of remedial efforts and now discloses the percentage and dollar amount of markups on all fixed income retail order trade confirmations in principal transactions. Wishman consented to a separate SEC order without admitting or denying the findings.

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