SEC and FINRA publish study of sales to seniors at BDs

By Editorial Staff *Thu, Jun 25, 2015*

With respect to variable annuities, the SEC and FINRA said they found evidence of potentially unsuitable sales to seniors at 34% of the 44 broker-dealers they examined.

A review of broker-dealer sales practices with regard to senior investors 65 years old or older, along with recommendations to improve those practices, has just been published by the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA).

The review, "**National Senior Investor Initiative: A Coordinated Series of Examinations**," noted that, because safe investments offer historically slim yields, senior investors are especially vulnerable to recommendations to buy inappropriate products that appear to fulfill their need for steady income.

The examinations itself was conducted in 2013 by FINRA and the SEC's Office of Compliance Inspections and Examinations, and involved inquiries at 44 broker-dealers as well as meetings with the Consumer Financial Protection Bureau; the AARP Education and Outreach Group; and state regulators from Florida, Colorado, California, Texas, and North Carolina.

The 44 examinations focused on:

- The types of securities being sold to senior investors
- Training of firm representatives with regard to senior specific issues
- How firms address issues relating to aging (e.g., diminished capacity and elder financial abuse or exploitation)
- Use of senior designations
- Firms' marketing and communications to senior investors
- Types of customer account information required to open accounts for senior investors
- Suitability of securities sold to senior investors
- Disclosures provided to senior investors
- Complaints filed by senior investors and the ways firms tracked those complaints
- Supervision of registered representatives as they interact with senior investors

The reviews identified the products listed below as among the top five revenue-generating securities at the examined firms based on sales to senior investors (along with the approximate percentages of broker-dealers where the products were among the five most commonly sold to senior investors):

- Open-end mutual funds (77%)
- Variable annuities (68%)
- Equities (66%)
- Fixed income investments (25%)
- Universal investment trusts and exchange-traded funds (20%)
- Non-traded real estate investment trusts (20%)
- Alternative investments such as options, business development companies, leveraged inverse ETFs (15%)
- Structured products (11%)

With respect to variable annuities, the SEC and FINRA found evidence of potentially unsuitable sales to seniors at 34% of the 44 broker-dealers they examined. The report cited the possible unsuitability of recommendations to exchange existing variable annuities for new ones, to put a large percentage of a client's net worth in a variable annuity, or to buy products inappropriate to clients' ages and investment time horizons.