News Release

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FINRA Sanctions Merrill Lynch $6 Million for Selling IPOs to Industry Insiders

IPOs Included Facebook, Inc., General Motors Co., LinkedIn Corp., and Twitter Inc.

WASHINGTON - FINRA announced today that it has fined Merrill Lynch, Pierce, Fenner & Smith Inc. for improperly selling shares in initial public offerings (IPOs) to industry insiders, including its employees' immediate family members and customers who were brokers at other brokerage firms. Merrill Lynch will pay a $5.5 million fine, and disgorge $490,530 it earned as revenue from the sales.

FINRA rules restricting who may purchase IPOs are intended to promote investor confidence and preserve the integrity of the IPO process by ensuring that FINRA members do not provide favorable treatment to industry insiders at the expense of public customers. FINRA Rule 5130 therefore prohibits member firms from selling IPO shares to certain "restricted persons," such as the immediate family members of its own brokers, and its customers who are associated with other broker-dealers.

FINRA found that from 2010 through March 2018, Merrill Lynch made at least 1,462 prohibited sales of IPO shares in 325 different offerings to 149 customer accounts in which brokers at other firms or family members of Merrill brokers held a beneficial interest. Among the IPOs improperly sold to these accounts were highly anticipated and sought-after stocks such as Facebook, Inc., General Motors Co., LinkedIn Corp., and Twitter Inc. At least 120 different financial advisors located in 79 of the firm's branch offices effected the prohibited IPO sales.

FINRA also found that Merrill Lynch's violations occurred because it failed to implement supervisory systems and procedures reasonably designed to achieve compliance with the FINRA rule prohibiting IPO sales to industry insiders. Merrill Lynch failed to use information in its own customer records to prevent the sale of IPO shares to clients who were restricted persons; failed to reasonably respond when it learned that it had sold IPO shares to immediate family members of Merrill Lynch financial advisors; and failed to reasonably train its employees to achieve compliance with the IPO rule.

"IPO shares sold to industry insiders are unavailable to investors who might otherwise have purchased them," said Susan Schroeder, FINRA Executive Vice President, Department of Enforcement. "FINRA rules play an important role in preserving the fairness of the IPO process and protecting investors' access to IPOs. Merrill Lynch knew or should have known that these customers were restricted from IPO purchases, but repeatedly sold them shares in violation of FINRA rules."

In settling this matter, Merrill Lynch neither admitted nor denied the charges, but consented to the entry of FINRA's findings.

FINRA is a not-for-profit organization dedicated to investor protection and market integrity. It regulates one critical part of the securities industry – brokerage firms doing business with the public in the United States. FINRA, overseen by the SEC, writes rules, examines for and enforces compliance with FINRA rules and federal securities laws, registers broker-dealer personnel and offers them education and training, and informs the investing public. In addition, FINRA provides surveillance and other regulatory services for equities and options markets, as well as trade reporting and other industry utilities. FINRA also administers a dispute resolution forum for investors and brokerage firms and their registered employees. For more information, visit www.finra.org.