



LPL, Cetera and CUSO in crosshairs of Utah regulator over BD ties to credit unions

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Utah's securities regulator is cracking down on broker-dealers doing business with credit unions in the state.

LPL Financial, CUSO Financial Services and Cetera Advisor Networks have each been named in separate petitions filed by the Utah Division of Securities with the state's Securities Commission to have the trio censured and fined a collective \$2.25 million for allegedly violating regulations governing how broker-dealers can work with credit unions through networking agreements.

The Utah regulator claims that the firms approved the use of misleading sales and advertising materials that created the impression that the investment services they provided were part of the credit unions where they conducted business, a violation of FINRA and SEC rules.

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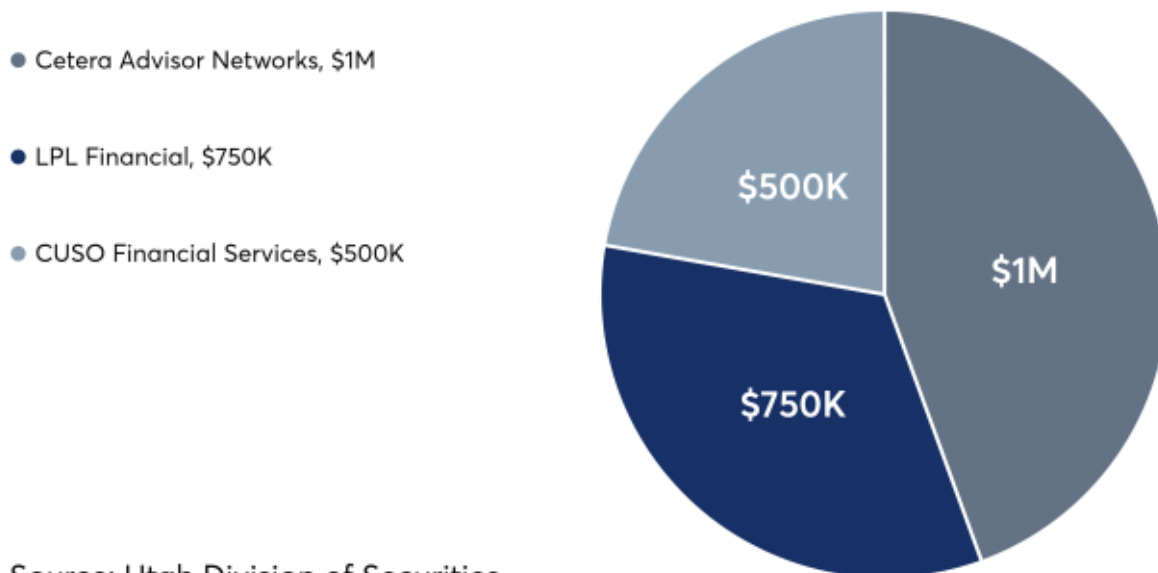
Credit unions provide a different set of products, which are not, the regulator said. Understand the difference between credit unions and broker-dealer products, which are not, the regulator said.

The Utah securities watchdog reprimanded the broker-dealers for not separating their services "in such a way as to clearly segregate and distinguish them from those of the credit union." In fact, the firms went out of their way to do just the opposite, it alleged.

The regulator criticized the firms for everything from the branding of the investment services businesses, which they said was too closely linked to the names of the credit unions, to the way the advisors answered the phone.

Utah's possible \$2.25M fine

State regulator says three IBDs failed to comply with guidelines on networking agreements with credit unions.



Source: Utah Division of Securities

Advisors used the credit unions' rather than the firms' names to answer the phone and craft voicemail messages, blurring the lines between the institutions, the regulator said. It also took issue with the business cards the firms approved for their registered reps, which prominently displayed the name and logo of the credit unions.

In interviews with the regulator's examiners, some advisors noted that the credit union's management wanted the investment side of the business to feel like it was part of the credit union. One CUSO advisor, for example, noted that the credit union did not want the registered reps to feel as though they were merely "hanging out in the office."

The LPL advisors downplayed their relationships with LPL altogether, with one stating that LPL was "just an entity in the background" that "most people don't care about."

The firms "failed to clearly identify [themselves] as the entities providing broker-dealer services and distinguishing [their] broker-dealer services from those of the credit unions," the regulator claimed in the petitions.

The Utah watchdog also accused the broker-dealers of engaging in dishonest and unethical conduct by splitting commissions, profits and other compensation with the credit unions, which are not licensed as broker-dealers or investment advisors.

The regulator is looking to fine Cetera Advisor Networks \$1 million for a string of violations in its relationship with four credits: Jordan Credit Union, Granite Credit Union, Deseret First Credit Union and Utah Community Credit Union.

It is seeking to hit LPL Financial with a \$750,000 fine for its networking agreements with Cyprus Credit Union and Mountain America Credit Union. And it is looking to impose a \$500,000 fine on CUSO Financial for the way it was doing business with America First Credit Union.

"We're committed to enhancing our risk management and compliance structures, and take those obligations seriously," said LPL spokeswoman Lauren Hoyt-Williams. "We look forward to working proactively with the Utah Securities Division to resolve this matter."

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Cetera through spokesman Joseph Kuo declined to comment, saying it does not publicly discuss legal or regulatory matters as a matter of policy.

CUSO disagreed with the allegations and has already initiated the process of defending itself, according to Peter Vonk, CUSO's chief compliance officer. "We are confident that we clearly disclose our relationships with all credit unions in accordance with regulatory guidance and requirements," he said.

The three broker-dealers are scheduled to attend an initial hearing on May 21 at the Utah Division of Securities in Salt Lake City. One of the purposes of the initial hearing is to set a date to adjudicate the allegations made in the regulator's petition.



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