

STATE OF VERMONT  
DEPARTMENT OF FINANCIAL REGULATION



IN RE: People's Securities, Inc.

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DOCKET NO. 17-022-S

STIPULATION AND CONSENT ORDER

This Stipulation and Consent Order is entered this 1<sup>st</sup> day of August 2017 by and among People's Securities, Inc. ("Respondent", "PSI", or "the Firm"), and the State of Vermont Department of Financial Regulation ("Department").

WHEREAS, the Commissioner of the Department ("Commissioner") is responsible for administering and enforcing the Vermont Uniform Securities Act ("Securities Act"), Title 9, Chapter 150 of the Vermont Statutes Annotated, and the Vermont Securities Regulations, Order 06-43-S (replaced by Rule S-2016-01, effective July 1, 2016), pursuant to which the Department has conducted a review of Respondent; and

As a result of the Department's review, the Department has concluded that the Firm had certain operational deficiencies and needs to ensure that it maintains adequate supervisory systems and written procedures related to conducting securities business on the premises of a depository institution and opening and transacting in margin accounts; and

The Firm has cooperated with the Department in its investigation by promptly responding to inquiries, voluntarily appearing for examinations, and providing documentary evidence and other materials; and

The Firm has already implemented certain changes to its procedures, guidelines, supervision and training programs related to the opening of margin accounts; and

The Department has accordingly sought, and Respondent, without the necessity of further formal proceedings, has agreed to take additional corrective and remedial measures as more specifically described herein; and

Respondent elects to permanently waive any right to a hearing and appeal under the Vermont Administrative Procedure Act, Title 3, Chapter 25 of the Vermont Statutes Annotated; the rules, regulations, and orders of the Commissioner; and any right it may have to judicial review by any court with respect to this Consent Order; and

The Firm denies the findings, allegations, and conclusions herein. However, the Firm wishes to resolve this investigation without the need for formal proceedings and solely for that purpose, does hereby consent to the following Order.

NOW THEREFORE, the Commissioner makes findings and conclusions as follows:

## FINDINGS OF FACT

1. Respondent People's Securities, Inc. ("PSI"), CRD #13704, is a Vermont registered broker dealer and investment adviser based in Bridgeport, Connecticut.
2. In 2015, the Department commenced an investigation regarding the Firm's procedures related to opening margin accounts and conducting investment-related services on the premises of a financial institution where retail deposits are taken. The investigation began following the Department's receipt of, and subsequent investigation into, a complaint regarding the Firm's handling of a particular margin account (the "Investigation").
3. Respondent is a subsidiary of People's United Bank, N.A. ("People's United Bank"). The Firm conducts securities business including, but not limited to, brokerage services, investment advice, and advisory services at People's United Bank locations where retail deposits are taken. The Firm employs registered agents and investment adviser representatives to provide the onsite securities advice and services. Some of these registered agents/representatives are jointly employed by both the Firm and People's United Bank, and are known as Licensed Investment Associates ("LIAs"). Other registered agents/representatives who conduct securities business that are employed solely by the Firm are known as Financial Advisors ("FAs").
4. In at least eight People's United Bank locations in Vermont where the Firm conducts securities business, there is no permanently designated physical space for the Firm's securities business that is separated from the retail area of the depository institution. One of the Firm's FAs stated under Oath to the Securities Division that it is his practice to conduct securities business in branch employee offices or conference rooms that are also utilized by People's United Bank employees at other times for non-securities business purposes. The FA also stated that he carries portable cardboard signage that identifies the Firm and contains required customer disclosures, and that he sets up the signage during customer meetings.
5. On April 18, 2014, a 71-year-old customer ("customer") sought to amend a pre-existing self-directed account to add margin trading capabilities through a People's United Bank branch located in Wilmington, Vermont. The customer approached the branch manager ("manager"), who provided the customer with the margin account application and assisted with preparation of the application. The manager, who also served as an LIA at that location, attempted to refer the customer to a FA that had a pre-existing relationship with the customer, but the customer declined. The manager did not solicit or recommend margin trading to the customer, nor did the manager discuss the substance of the application with the customer or review the application for suitability. The manager did not disclose to the customer that he was jointly employed or advise the customer that he was acting solely in his capacity as a bank employee.
6. A Firm principal based in Connecticut who acts in a supervisory capacity ultimately reviewed and signed the customer's margin application as the registered agent. At no time did any person from the Firm speak with the customer about his application or review the customer's account history from prior transactions through the Firm. It is the Firm's practice to

have all margin accounts opened at the Firm's office of supervisory jurisdiction and operations headquarters in Bridgeport, Connecticut. All transactions on margin accounts are unsolicited and are accepted through the Firm's discount brokerage call center also located in Bridgeport, Connecticut. FAs and LIAs are not authorized to open margin accounts, nor are they authorized to solicit or accept transactions on individual equities.

7. The Firm's written supervisory procedures ("WSPs") regarding margin accounts that were in place in April 2014 did not require that the Firm speak directly with a customer prior to opening a margin account, collect suitability information or review for suitability beyond obtaining a credit report, or review any existing account history. The Firm has since modified its procedures to require a principal to contact the customer via telephone and inquire with the customer regarding (but not limited to) the following areas:

- a. Did the customer receive the Firm's Margin Agreement and Margin Disclosure at account opening and/or at the time of completing a request to add margin capabilities to an existing account?
- b. Does the customer have any questions regarding the information provided in the disclosures?
- c. Does the customer have any questions regarding the maintenance requirements regarding margin trading?
- d. What are the customer's general plans regarding use of the margin account?

8. The Firm was responsive to a complaint that the customer filed with the Firm, and entered into a confidential settlement to resolve the complaint.

### CONCLUSIONS OF LAW

1. Section II.3 of Exhibit 6.6 to Order 06-43-S requires employees who are jointly employed by a depository institution and a broker-dealer/investment adviser and who are registered agents/representatives to disclose this dual relationship to securities customers. The failure of an LIA to disclose the dual relationship of joint employment by the Firm and People's United Bank violated Section II.3 of Exhibit 6.6 to Order 06-43-S.

2. Section III.6 of Exhibit 6.6 to Order 06-43-S requires that if a broker-dealer/investment adviser occupies physical space in an area on the premises of a depository institution, the area must be sufficiently separated from the retail area of the depository institution, be conspicuously identified as the place of business of the broker-dealer/investment adviser, readily distinguishable from the operations of the depository institution and staffed only by those persons whose affiliation with the broker-dealer/investment adviser is conspicuously identified. The failure to have and maintain physical space for Firm securities business that is

conspicuously identified and sufficiently separated from the retail area of People's United Bank branches violated Section III.6 of Exhibit 6.6 to Order 06-43-S.

3. Section III.12 of Exhibit 6.6 to Order 06-43-S provides that the broker-dealer/investment adviser is responsible for supervising joint employees of the depository institution and the securities firm who are registered agents/investment adviser representatives and for ensuring compliance with all applicable securities laws and regulatory requirements. The failure to reasonably supervise FAs and LIAs located on depository institution premises violated Section III.12 of Exhibit 6.6 to Order 06-43-S.

4. The Firm had inadequate WSPs regarding the suitability of margin accounts in violation of Section 3.04 of Exhibit 6.5 to Order 06-43-S.

5. Pursuant to 9 V.S.A. §§ 5412(c) and 5412(d)(9), the Commissioner may discipline a person where the person has failed to supervise reasonably an agent, investment adviser representative, or other individual, if the agent, investment adviser representative, or other individual was subject to the person's supervision and committed a violation of the Securities Act or regulations.

6. Pursuant to 9 V.S.A. § 5604, after determining that a person has engaged in an act that constitutes a violation of the Securities Act, or a rule adopted or order issued under the Securities Act, the Commissioner may, among other things, issue a final order directing the person to cease and desist from engaging in the act, and pay a civil penalty.

7. Pursuant to 9 V.S.A. §§ 5412(c) and 5604, the Commissioner issues the following Consent Order, and finds that it is in the public interest.

## CONSENT ORDER

Based on Respondent's stipulation, and on the basis of the Findings of Fact and Conclusions of Law, the Commissioner issues the following Order, to be fully complied with following receipt by the Commissioner of the duly executed Consent to Entry of Administrative Order:

1. Respondent shall, within 120 days of execution of this Consent Order, provide enhanced training related to separation of functions to employees that are dually employed by the Firm and by People's United Bank as registered agents/investment adviser representatives. This training shall include written guidance about distinguishing securities services and products. Specifically, staff must be reminded that unless impractical, investment-related services must be conducted in a physical location distinct from the area in which the financial institution's retail banking services occur. In all situations, a securities professional must identify its services in a manner that clearly distinguishes those services from the financial institution's retail banking services. All employees shall sign an acknowledgement that they received the enhanced training, and the Firm shall maintain records of such acknowledgements. The Firm shall provide a copy of the written guidance to the Securities Division as well as a certification that all employees received the training.

2. Within 10 days of the execution of this Stipulation and Consent Order Respondent shall pay \$22,500.00 to the Department. Of that amount, \$5,000.00 shall be a contribution to the Vermont financial services education and training special fund, and \$5,000 shall reimburse the Division for its costs of investigation in this matter.

3. Respondent shall maintain WSPs regarding the review and approval by a principal of applications for margin accounts including a requirement that the Firm orally verify a customer's understanding of margin accounts and review a customer's existing account history, if any, prior to permitting margin activity.

4. If Respondent fails or neglects to comply with any of the terms, conditions or undertakings set forth in this Stipulation and Consent Order, the Department may, upon written notice to Respondent, institute any legal or administrative proceedings it deems appropriate to enforce same and to seek such other appropriate sanctions, and Respondent shall consent to the entry of judgment for any unpaid balance.

5. Upon receipt by the Department of the full \$22,500.00 amount paid by Respondent in accordance with the terms of this Consent Order, this Stipulation and Consent Order will be deemed to have documented the resolution of this matter and will not be a basis for action against Respondent by the Department arising out of these same events in regards to the business of securities except in determining any action or penalty that may be imposed by the Department for any future violations of law by Respondent.

6. This Order is entered solely for the purpose of resolving the Investigation and is not intended to be used for any other purpose.

This ORDER shall become effective immediately upon the date set forth below.

**BY ORDER OF THE COMMISSIONER**

Entered at Montpelier, Vermont, this 10<sup>th</sup> day of August, 2017.



MICHAEL PIECIAK, Commissioner  
Vermont Department of Financial Regulation

**CONSENT BY PEOPLE'S SECURITIES, INC. TO THE ENTRY OF AN ORDER BY  
THE COMMISSIONER IMPOSING TERMS, CONDITIONS AND UNDERTAKINGS  
UNDER THE VERMONT UNIFORM SECURITIES ACT**

1. People's Securities, Inc. ("Respondent"), hereby admits the jurisdiction of the Commissioner over the subject matter of this proceeding, and solely with respect to this matter, knowingly and voluntarily waives any and all rights to a hearing before the Commissioner or his designee and all other procedures otherwise available under the Vermont Uniform Securities Act ("Securities Act"), Title 9, Chapter 150 of the Vermont Statutes Annotated, and any successor act, or the rules, regulations, and orders of the Commissioner. Respondent also waives compliance with the provisions of 3 V.S.A., Chapter 25 regarding contested cases. Respondent acknowledges that this Consent Order constitutes a valid order duly rendered by the Commissioner, and agrees to be fully bound by it.

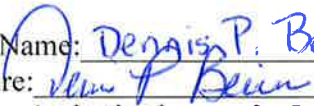
2. Respondent voluntarily and knowingly waives any rights it may have to judicial review by any court by way of suit, appeal, or extraordinary remedy resulting from the issuance of the Consent Order.

3. Respondent acknowledges and agrees that the Consent Order is entered into freely and voluntarily and that no promise was made, nor was any coercion used, to induce the Respondent to enter into the Consent Order.

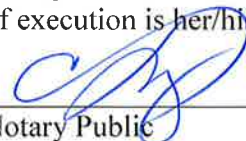
4. Respondent acknowledges its understanding of all terms, conditions, and obligations contained in the Consent Order and further acknowledges that should it fail to comply with any and all provisions of the Consent Order, the Commissioner may impose additional sanctions and seek other appropriate relief subject to the Respondent's right to a hearing pursuant to the Securities Act and any successor act.

Dated this 1<sup>ST</sup> day of August, 2017.

AGREED AND ACCEPTED BY:

Printed Name: Dennis P. Beirne  
Signature:   
Authorized agent for People's Securities, Inc.

BEFORE ME this 1<sup>ST</sup> day of August, 2017, personally appeared a representative of People's Securities, Inc. who acknowledged that s/he executed the foregoing for the purposes therein contained, and that such act of execution is her/his free act and deed.

  
Notary Public  
My Commission Expires: 6/30/2019

AGREED AND ACCEPTED:

  
William Carrigan, Deputy Commissioner, Securities Division