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By Danielle Verbrigghe

The [Securities and Exchange Commission](#) (SEC) has charged [Wells Fargo Advisors](#) for lax insider trading controls in a case involving an advisor trading off client information and a compliance officer altering an official document.

Wells Fargo admitted wrongdoing and agreed to pay \$5 million to settle the supervision charges, according to a court order instituting administrative and cease and desist proceedings issued yesterday. The firm will also hire an independent consultant to review internal policies and procedures.

This marks the first time a brokerage has been formally charged for failing to protect a client's material nonpublic information, according to an SEC statement.

After learning from a client that a private equity firm, **3G Capital**, was acquiring **Burger King**, a Wells Fargo broker traded on the information before the official announcement, according to an SEC order instituting a settled administrative proceeding. In 2012, the SEC charged Miami-based advisor **Waldyr Da Silva Prado Neto** with insider trading and froze his assets. In a cease and desist order released yesterday, the SEC said that Wells Fargo received indications that the advisor had been misusing customer information, but lacked coordination in assigning responsibilities and failed to act.

A Wells Fargo spokeswoman declined to comment.

Despite policies for conducting "look back" reviews of trading in employee and client accounts after market-moving announcements, Wells Fargo failed to recognize several red flags that the advisor was engaging in insider trading, according to the order.

Additionally, when the SEC asked for documents related to the incident, Wells Fargo Advisors unreasonably delayed producing certain documents, and produced a document to SEC staff that had been altered by a compliance officer, according to the order.

"The firm's actions improperly delayed our investigation, and the production of an altered document interfered with our search for the truth," said **Daniel Hawke**, chief of the SEC Enforcement Division's Market Abuse Unit in a statement issued yesterday.

When the SEC formally requested Wells Fargo Advisors produce all documents related to the reviews of the advisor's trading, the firm unreasonably delayed producing the documents for six months without any explanation, according to the order. When the documents were produced, Wells Fargo handed over a document that had been altered by a compliance officer. According to the order, the compliance officer added sentences to a trading review log to indicate that rumors of acquisition had been circulating for several weeks before the announcement and that the stock price was up 15% on the day before the announcement.

When questions arose about the altered document, Wells Fargo placed the employee on administrative leave and then terminated the employee.

The altered document adds an atypical twist to the case, says **Patrick Burns**, an attorney who heads the **Law Offices of Patrick J. Burns**.

"It's highly unusual that somebody would do that, especially in the compliance department," Burns says. "That's not normally something you would expect to see coming out of a compliance department at a major firm like this."

The case also highlights the SEC's focus on insider trading, he says.

"This just drives home that insider trading is a major hot topic right now," Burns says. "The SEC is not afraid to wield its penalties where they are appropriate, even at the \$5 million dollar level."

As the first case of its type, this type of outcome sets a precedent that could make it harder for other brokerages facing similar investigations to reach a favorable settlement going forward, says **Jonathan Uretsky**, an attorney and partner at **Phillipson & Uretsky**. "What this means is the next time something like this does happen, it will be harder for another firm in the same situation to get a firm-friendly settlement," he says.

Many firms look to settle such cases with the SEC in the Wells Notice phase, or in advance of that, before formal charges are leveled, to avoid the publicity, he says. "You can work with the SEC if you have a good relationship with them and if you don't aggravate them."