

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2012034423502**

**TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")**

**RE: Prudential Annuities Distributors, Inc., Respondent
Member Firm
CRD No. 21570**

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Prudential Annuities Distributors, Inc. ("PAD" or the "Firm") submit this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. PAD hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

PAD is headquartered in Shelton, Connecticut and has been a FINRA member since 1988. As of March 31, 2016, PAD had approximately 19 branch offices and 692 registered representatives. The Firm primarily acts as the principal underwriter and distributing broker-dealer for life and annuity products issued by certain of PAD's affiliated insurance companies.

OVERVIEW

From July 20, 2010 to September 7, 2012 (the "Relevant Period"), PAD failed to detect and prevent the misappropriation of nearly \$1.3 million from an elderly customer's variable annuity ("VA") account. Travis A. Wetzel ("Wetzel"), a former registered sales assistant at LPL Financial ("LPL") and since-convicted

felon,¹ stole the money by submitting to PAD 114 forged annuity withdrawal requests that directed PAD to send funds to a third-party account held in the maiden name of Wetzel's wife.

PAD failed to prevent or detect Wetzel's misappropriation by repeatedly failing to ~~adequately investigate red flags that should have alerted the Firm to Wetzel's~~ misconduct, and by failing to implement adequate supervisory procedures ("WSPs") and controls to review and monitor the transmittal of customer funds to third party accounts. As a result of the foregoing, PAD violated NASD Rules 3010 and 3012(a)(2)(B)(i) and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

A. Wetzel's Misappropriation Scheme

In July 2010, L.W., an 89-year-old widow owned a Prudential Annuity Life Assurance Corporation ("Prudential") VA that she purchased through her registered representative at LPL. Prudential serviced L.W.'s account through its registered broker-dealer, PAD, which was responsible for, among other things, processing requests to withdraw funds from L.W.'s VA account.

During the Relevant Period, Wetzel, an LPL registered sales assistant who serviced L.W.'s brokerage accounts, misappropriated \$1,282,224 from L.W.'s Prudential VA by submitting forged wire transfer requests to PAD to send funds to a third-party account. Wetzel forged the requests by cutting and pasting L.W.'s signature onto the request forms and then faxed or e-mailed them to PAD. The third-party account was in the maiden name of Wetzel's wife and controlled by Wetzel.

Over the 26-month period, Wetzel submitted 114 forged wire transfer requests. On average, he sent PAD 4 to 5 withdrawals a month for almost \$50,000. After Wetzel was caught, PAD and LPL reimbursed L.W. in full.

B. PAD Failed to Adequately Investigate Red Flags that Wetzel was Misappropriating Customer Funds

PAD repeatedly failed to adequately investigate red flags that should have alerted the Firm to Wetzel's misappropriation.

The Firm had in place an automated post-transaction review system that generated alerts for withdrawal activity from a customer account. The Firm required

¹ FINRA barred Wetzel in May 2013 in a related matter. Also, in February 2015, Wetzel was sentenced to 42 months in federal prison after pleading guilty to wire fraud and money laundering in connection with the misappropriation described herein. See *United States v. Travis Wetzel*, No. DKC-14-255 (D. Md.).

personnel to manually review each transaction that triggered an alert and confirm the transaction appeared legitimate. Every transfer request Wetzel sent to PAD, 114 in all, triggered an alert putting PAD on notice that the request might be fraudulent. In each instance, however, PAD determined erroneously that the withdrawal activity appeared legitimate. In addition, for 44 transfers, PAD concluded that the withdrawn funds were paid to L.W. when, on the face of the withdrawal request, the money was not being sent to L.W. PAD did nothing further to investigate these alerts.

In addition, the Firm had a quarterly audit program that, among other things, required a supervisor to spot check closed alerts and verify the adequacy of the initial review. Beginning in early 2011, and continuing into 2012, a Firm supervisor reviewed six alerts triggered by Wetzel's fraudulent wire requests as part of the audits. In five of the six cases, the supervisor noted that PAD associated persons had closed the alerts by concluding erroneously that the funds were being sent to L.W. PAD further investigated the wire activity in July 2012 and again concluded that the wire activity appeared to be legitimate. In doing so, PAD unreasonably relied on a single e-mail from Wetzel, sent when he began stealing money from L.W., claiming L.W. was transferring funds to L.W.'s daughter.

In addition, in March 2011, approximately seven months after Wetzel began stealing funds from L.W.'s VA account, a PAD associated person noticed that repeated payments were being made from L.W.'s VA account to the same third-party payee. The associated person escalated the issue to the Firm's designated fraud specialist. By this time, the Firm had processed 27 fraudulent wire requests from Wetzel. In reviewing the withdrawals from L.W.'s VA account, the fraud specialist concluded that the withdrawals appeared legitimate, without sufficiently investigating or determining the relationship between L.W. and the person receiving funds from L.W.'s account.

As a result of the foregoing, PAD violated NASD Rule 3010(a) and FINRA Rule 2010.

C. PAD's Inadequate WSPs and Supervisory Controls For Third-Party Disbursements

During the Relevant Period, PAD failed to establish and maintain reasonable supervisory procedures and controls to supervise third-party distributions and prevent fraudulent withdrawals from VA accounts. In particular, PAD did not have sufficient WSPs or supervisory controls to identify or review repeated transmittals of funds from a customer's account to the same third-party payee. As a result, PAD did not detect Wetzel's pattern of misconduct which involved sending multiple wires of customer funds to a third-party payee.

PAD also failed to establish and maintain sufficient WSPs and supervisory controls to verify signatures for third-party distributions. PAD's WSPs required signature comparison of wire transfers when the funds in a single request exceeded \$25,000. The Firm failed to require signature verification based on a pattern of wire activity and whether multiple transmittals triggered the \$25,000 threshold. All but five of Wetzel's withdrawals were for less than \$25,000 and of the five that exceeded \$25,000, the Firm did nothing more than compare the signature on the wire request to L.W.'s signature on file.

As a result of the foregoing, PAD violated NASD Rules 3010 and 3012(a)(2)(B)(i), and FINRA Rule 2010.

B. PAD also consents to the imposition of the following sanctions:

1. A censure;
2. A fine in the amount of \$950,000.

PAD agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. PAD has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

PAD specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

PAD specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against it;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and

then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, PAD specifically and voluntarily waives any right to claim bias or prejudice of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

PAD further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

PAD understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against it; and
- C. If accepted:
 1. this AWC will become part of PAD's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;
 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 4. PAD may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. PAD may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is


inconsistent with any part of this AWC. Nothing in this provision affects PAD's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. PAD may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. PAD understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.


The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that PAD has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce PAD to submit it.

07/11/2016
Date (mm/dd/yyyy)

Prudential Annuities Distributors, Inc.
Respondent

By 
Rodney Allain

Reviewed by:



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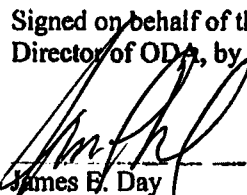
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Accepted by FINRA:

7/19/16
Date

Signed on behalf of the
Director of ODA, by delegated authority



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