Several executives depart Feltl after firm pays $1 million penalty

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Feltl & Co. replaced several executives, including its top lawyer, and paid a $1 million fine to settle a regulatory agency's finding that it failed to oversee a low-priced "penny stock" business.

The Minneapolis-based securities brokerage has also halted the business.

"This is a serious violation in terms of how long this went on and the scope of the violations," said Emily Gordy, senior vice president of enforcement at the Financial Industry Regulatory Authority (FINRA). "This is an important 'message case' because it speaks to firms that engage in penny-stock transactions, as this firm did from 2008 until 2012."

FINRA, the self-regulatory arm of the securities industry, said Feltl failed to comply with customer-suitability, disclosure and record-keeping requirements, didn't provide SEC-mandated risk-disclosure documents to customers before trading penny stocks and failed to adequately supervise the business.

Penny stocks, which trade for less than $5 per share, usually involve small, thinly traded companies that are considered to be more speculative investments than are high-volume, exchange-traded stocks.

Feltl solicited its customers to make at least 2,450 purchases of 17 penny stocks in which it made a market and received $2.1 million from the transactions. FINRA said it was unable to gauge the total number of trades because of incomplete records. FINRA also criticized Feltl for failing to produce "the daily trade blotter" for certain dates for one office and only after a monthslong delay for another branch.

In a "corrective action" statement submitted by Feltl, the firm said it ceased recommending penny stocks to customers in February 2012 and allows customers to trade penny stocks only at their request. Chief Executive John Feltl took steps to bring supervisory and compliance measures up to the "terms and spirit" of industry regulations, it said.

The firm, which has 113 registered securities brokers, replaced its general counsel, chief compliance officer, head trader and a branch manager as a result of the investigation.

Tom Steichen, who took over as Feltl's general counsel earlier this year, said in a prepared statement that Feltl was pleased to have resolved the matter. "We felt it prudent to simply move on rather than admit or deny FINRA's findings," he said.

Ben Anderson, a securities lawyer at Anderson PLC in St. Paul who is not involved in the Feltl case, said it was a warning to securities broker-dealers to meet regulatory requirements through "experienced staff, technology and system resources."

"It's a significant fine," Anderson said. "Beyond that, it's a statement that FINRA will … take significant and punitive actions against firms that don't invest in meeting basic compliance requirements."

In 2011, Feltl agreed to pay a penalty of $50,000 and returned more than $142,000 to certain of its investment-advisory business clients. The SEC said Feltl conducted trades in client accounts without permission and without the necessary compliance documentation, and that it improperly charged undisclosed commissions on transactions in clients' wrap-fee accounts.

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