

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2017054642101**

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

RE: Northwestern Mutual Investment Services, LLC, Respondent  
Member Firm  
CRD No. 2881

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Northwestern Mutual Investment Services, LLC ("NMIS," the "Firm," or "Respondent") submits 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. Respondent 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**

NMIS has been a FINRA member firm since October 1968. Headquartered in Milwaukee, Wisconsin, NMIS employs approximately 11,000 registered individuals in 866 branches. The Firm's primary lines of business are retail securities, mutual funds, municipal bonds, and variable contracts.

**RELEVANT DISCIPLINARY HISTORY**

NMIS does not have any relevant disciplinary history with the Securities and Exchange Commission, FINRA, any other self-regulatory organization, or any state securities regulator.

## OVERVIEW

Between September 7, 2005 and February 28, 2017 (the “Relevant Period”), a registered representative associated with NMIS, Representative X, converted \$473,496 from five of his customers’ variable annuities. In addition, on four occasions during the Relevant Period, Representative X effected unauthorized transfers of funds totaling \$121,123 from two customers’ variable annuities to another customer’s bank account, in order to conceal his previous conversion from that customer. NMIS failed to establish, maintain and enforce a supervisory system that was reasonably designed to review and monitor the transmittals of funds from the accounts of customers to third party accounts and outside entities. By virtue of the foregoing, NMIS violated NASD Rules 3010 and 3012(a)(2)(B)(i) (for conduct occurring before December 1, 2014), NASD Rule 2110 (for conduct occurring before December 15, 2008), FINRA Rule 3110 (for conduct occurring on or after December 1, 2014), and FINRA Rule 2010 (for conduct occurring on or after December 15, 2008).

## FACTS AND VIOLATIVE CONDUCT

Prior to December 1, 2014, NASD Rule 3012 required firms to establish, maintain, and enforce written supervisory control policies and procedures to address a variety of activities. NASD Rule 3012(a)(2)(B)(i) provided that a member shall have procedures that are reasonably designed to review and monitor all transmittals of funds or securities from the accounts of customers to third party accounts and outside entities (including banks).

From December 1, 2014 to the end of the Relevant Period, FINRA Rule 3110 required each member firm to have a supervisory system for the activities of its associated persons that was reasonably designed to achieve compliance with applicable securities laws and regulations and FINRA rules. FINRA Rule 3110(c)(2) incorporates NASD Rule 3012’s requirements regarding the review and monitoring of the transmittal of funds.

Prior to December 1, 2014, NASD Rule 3010(a) required each member firm to “establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD Rules.” From December 1, 2014 through the end of the Relevant Period, FINRA Rule 3110(a) required each member firm to “establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.”

Prior to December 15, 2008, NASD Rule 2110 required FINRA member firms to observe high standards of commercial honor and just and equitable principles of trade. From December 15, 2008 through the end of the Relevant Period, FINRA Rule 2010 imposed identical requirements. Conduct that violates NASD Rule 3010(a), NASD Rule 3012(a)(2)(B)(i), FINRA Rule 3110(a) or FINRA Rule 3110(c)(2) also violates NASD Rule 2110 and FINRA Rule 2010.

During the Relevant Period, Representative X converted \$473,496 from variable annuities owned by five NMIS customers through 23 distributions and transfers to his bank account, during a period in which Representative X was experiencing personal financial difficulties. In January 2009, Representative X's supervisor disciplined Representative X for threatening a staff member during a dispute about a commission payment. On four occasions during the Relevant Period, Representative X was also fined by a Firm affiliate for missing minimum earnings requirements in amounts ranging from \$350 to \$15,000. In addition, in April 2015, the Firm learned that Representative X was the subject of IRS tax liens for multiple years of unpaid taxes.

To convert customer funds, Representative X forged the customers' signatures on variable annuity distribution requests, and submitted the forged documents to the Firm. The distribution requests falsely stated that funds would be electronically transferred to the customer's bank account. Representative X simultaneously submitted to the Firm fictitious blank checks containing the customers' names and addresses, but the bank account number and bank routing number for his own bank account, the same bank account where Representative X received his Firm commissions. The Firm did not take reasonable steps to verify that the customers actually controlled the transferee bank accounts, and the Firm effected the transfers. In an effort to conceal his scheme, Representative X told some of his customers that he was re-investing their funds in a non-existent foreign currency fund at the Firm and created fictitious Firm documents purporting to reflect their investments in the non-existent fund.

Representative X also caused funds totaling \$121,123 to be transferred on four occasions from variable annuities owned by two NMIS customers to another customer's bank account. In these instances, Representative X forged his customers' signatures on variable annuity distribution requests and submitted the forged documents to the Firm. The distribution requests falsely stated that funds would be electronically transferred to the customer's bank account. Representative X simultaneously submitted to the Firm fictitious blank checks containing the customers' names and addresses, but another customer's bank account number and bank routing number. The Firm did not take reasonable steps to verify that the relevant customers actually controlled the recipient bank accounts, and the Firm effected the transfers.

By 2013, the Firm observed a high rate of variable annuity withdrawals and surrenders among Representative X's customers. Certain of these withdrawals were among the ones Representative X effected in order to convert customer funds. The Firm's electronic systems flagged three of these withdrawals totaling \$97,317 for further review due to the

high volume of withdrawals. However, the Firm's investigation and review of these withdrawals was not reasonable.

During the Relevant Period, the Firm did not have a reasonable supervisory system to review and monitor transfers of customer funds to third party accounts and outside entities. The Firm's supervisory system failed to include a policy or procedure to review and monitor for multiple transmittals of funds from multiple customers going to the same third party accounts. The Firm's system also failed to include exception reports or any other means to monitor and review patterns of multiple wire requests and checks by multiple customers to the same third party bank account or for requiring comparison of customer signatures on request forms to signatures on file. Consequently, the Firm failed to detect that Representative X made 23 transfers totaling \$473,496 to his own bank account, the same bank account where he received his Firm commissions.

In March 2017, after Representative X's voluntary termination, one of Representative X's customers complained about the loan balance on one of her insurance policies. The Firm commenced an investigation in response to the customer complaint and thereby identified Representative X's misconduct. After it learned of Representative X's misconduct, the Firm reimbursed all of the affected customers in full.

By virtue of the foregoing, NMIS violated NASD Rules 3010 and 3012(a)(2)(B)(i) (for conduct occurring before December 1, 2014), NASD Rule 2110 (for conduct occurring before December 15, 2008), FINRA Rule 3110 (for conduct occurring on or after December 1, 2014), and FINRA Rule 2010 (for conduct occurring on or after December 15, 2008).

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

- A censure;
- A fine of \$350,000; and,
- Within 60 days of the date this AWC is accepted, a certification from a senior officer and principal of NMIS with supervisory authority over the Firm's supervisory system regarding the transfer of customer funds to third parties and outside entities that the Firm has enhanced its supervisory systems and written supervisory procedures in ways that are reasonably expected to address the areas of conduct discussed in this AWC. This certification shall be submitted by letter addressed to Seth Kean, Senior Counsel, FINRA Enforcement, Brookfield Place, 200 Liberty Street, New York, NY 10281-1003.

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

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

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

## II.

### WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives 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, Respondent specifically and voluntarily waives any right to claim bias or prejudgment 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.

Respondent 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

Respondent 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 Respondent; and

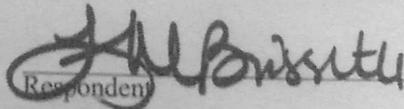
C. If accepted:

1. this AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Firm;
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. Respondent 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. Respondent 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 the Firm'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. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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 the Firm 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 the Firm to submit it.

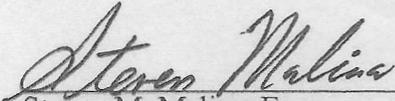
4/2/20  
March 27, 2020

  
Respondent

Northwestern Mutual Investment Services, LLC

By: Lori Brissette, its President

Reviewed by:

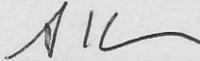


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Tel 312.476.5133

Accepted by FINRA:

~~March~~, 2020  
April 7,

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



Seth M. Kean  
Senior Counsel  
FINRA Department of Enforcement  
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New York, NY 10281-1003  
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