

Press Release

Merrill Lynch Charged With Gatekeeping Failures in the Unregistered Sales of Securities

FOR IMMEDIATE RELEASE

2018-32

Washington D.C., March 8, 2018 — The Securities and Exchange Commission today announced settled charges against Merrill Lynch, Pierce, Fenner & Smith Inc. for its failure to perform required gatekeeping functions in the unregistered sales of securities on behalf of a China-based issuer and its affiliates.

The SEC's order found that Merrill Lynch sold almost three million shares of Longtop Financial Technological Limited's securities into the market despite red flags indicating that the sales could be part of an unlawful unregistered distribution. Ultimately, the distribution generated almost \$38 million in proceeds for the overseas issuer and its affiliates.

"Broker-dealers are important gatekeepers," said Antonia Chion, Associate Director of the SEC's Division of Enforcement. "A broker-dealer has a duty to conduct a reasonable inquiry and know its customers before effecting unregistered sales of securities."

The SEC's order found that Merrill Lynch violated Sections 5(a) and 5(c) of the Securities Act of 1933. In settlement, without admitting or denying the SEC's findings, the firm agreed to be censured and consented to the order requiring it to cease and desist from committing or causing any future violations of the registration provisions of the Securities Act. The order also requires Merrill Lynch to pay a penalty of \$1.25 million and more than \$154,000 in disgorgement and prejudgment interest from commissions and fees earned on the improper sales. The SEC has [revoked the registration of Longtop's securities](#).

The SEC's investigation of Merrill Lynch was conducted by Helaine Schwartz with assistance from Dean Conway, Christian Schultz and Hope Augustini. The case was supervised by Lisa Deitch.

###

Related Materials

- [SEC Order](#)