



COMMISSION NEWS

ARIZONA CORPORATION COMMISSION, 1200 W. WASHINGTON, PHOENIX, AZ 85007

TO: EDITORS, NEWS DIRECTORS
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AMERIPRISE FINANCIAL SERVICES AGREES TO \$1 MILLION FINE FOR INADEQUATE COMPLIANCE POLICIES, PROCEDURES

PHOENIX – Yesterday the Arizona Corporation Commission entered into a consent order with Minnesota-based securities dealer, Ameriprise Financial Services, Inc., requiring the payment of \$1 million in administrative penalties for failing to reasonably supervise a salesman, a deficiency that resulted in financial losses to several of its customers.

A Tucson-area customer filed a complaint against one of its salesmen, David John Palen, which resulted in an internal investigation by Ameriprise. In 2004, Ameriprise brought the investigation to the attention of the Commission's Securities Division and the Division launched its own independent review of the complaint and activities of Mr. Palen. Palen operated out of his Scottsdale home, which served as an Ameriprise branch office.

The Securities Division investigation revealed that Palen had allegedly signed customers' names on financial advisory service agreements without their knowledge and, through telephone instructions, initiated redemptions for financial advice fees out of his customers' brokerage accounts. Although Palen and Ameriprise collected the fees, 24 customers later claimed that they did not receive written financial plans or advice. The Division filed a separate action against Palen, which is currently pending.

This is not the first time the Commission has sanctioned Ameriprise for similar conduct. In an April 2000 order, the Commission found that Ameriprise, then known as American Express Financial Advisors, failed to reasonably supervise one of its Arizona advisers who telephonically made unauthorized fee redemptions in an elderly customer's account. The Commission required Ameriprise to pay \$125,000 in administrative penalties and to

undertake measures to prevent future misconduct.

Sometime after the 2000 order, however, Ameriprise discontinued some of its preventative measures. The Commission's present order requires that Ameriprise implement several additional changes to enhance controls pertaining to the sale and delivery of its financial advisory services.

In September 2005, the firm began sending separate "time of sale" confirmations to customers, confirming the establishment of an advisory services contract and identifying the fee amount and manner of payment. Additionally, advisers will be required to complete and submit worksheets that disclose fees and include a customer's signature.

The order requires Ameriprise to file quarterly reports with the Division summarizing all customer complaints involving Arizona residents. The original consent agreement called for these reports to be filed for two years. The Commissioners voted to double the reporting requirement to four years. Ameriprise must also file quarterly reports for the next two years summarizing all remedial actions taken in response to today's decision.

By January 2006, Ameriprise agreed to implement other changes related to its financial advisory services:

- Increased training and awareness of supervisors for the detection and prevention of signature forgeries,
- Requiring its Chief Compliance Officer to review and re-issue a statement of a "zero tolerance" policy on forgery issues in future internal compliance bulletins,
- Implementation of a stronger home office surveillance policy to detect inappropriate advisory activities,
- Revised supervisory structure that requires advisers pay all fees directly to Ameriprise, and
- Assignment of an on-site supervisor chosen by Ameriprise, not the advisers.

Ameriprise has paid its penalties to the State of Arizona as well as approximately \$475,000 in reimbursement for questionable fees to Palen's clients. By law, fines and penalties go directly into the state's General Fund and do not remain within the control of the Commission.

After it is signed by all of the Commissioners, the final order will be entered into the Commission's e-Docket system under docket number S-20427A-05-0788. Access e-Docket through the Commission's main webpage at www.azcc.gov. It will also be posted on the Division's Enforcement page at <http://www.ccsd.cc.state.az.us/enforcement/enforce-orders.asp>.

Caution for Investors

Entrusting your money with someone for investment purposes, while expecting a profit through the efforts of others, may involve a security and sales agents/dealers subject to registration. **VERIFY BEFORE YOU BUY!** Call the Securities Division, (602) 542-4242, toll free (866) VERIFY-9. The Division's investor education web site also has helpful information at www.azinvestor.gov.

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Ameriprise Financial released the following statement regarding today's Commission decision:

We are pleased to resolve this matter. We have made and will continue to make enhancements to our policies and procedures as we move forward.

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