FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2014040870001

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

RE: MetLife Securities, Inc., Respondent
Member Firm
CRD No. 14251

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, MetLife Securities, Inc. ("MSI" or the "Firm") 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. The Firm 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

MSI has been registered with FINRA since March 20, 1984. MSI is headquartered in New York, New York, and is a wholly-owned subsidiary of its parent company, MetLife, Inc. ("MetLife"). MSI is a full-service broker dealer that offers a wide array of securities products to its clients, including annuity and variable life products issued by affiliated and unaffiliated insurance carriers. As of January 31, 2016, MSI had 7,238 registered personnel and 923 branch offices.

OVERVIEW

From 2009 through 2014 (the "Relevant Period"), MSI made negligent misrepresentations and omissions to customers about the costs and guarantees relating to the replacement of one deferred variable annuity ("VA") for another ("VA Replacements"), and failed to supervise VA Replacements and sales of the Guaranteed Minimum Income Benefit ("GMIB") rider.[1] MSI's

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[1] The transactions subject to this AWC are those in which a customer surrendered an existing VA product and replaced it with a new MetLife VA product through an MSI registered representative.

disclosure issues affected almost three quarters of the tens of thousands of VA Replacements.[2] Each misrepresentation and omission about the cost or guarantees associated with the existing VA made the replacement appear more beneficial to the customer, even though the replacement VAs were typically more expensive than the existing VAs.

VAs are complex investments that are commonly marketed and sold to retirees or people saving for retirement. Replacing one VA with another involves a comparison of the various features of each security. Accordingly, VA replacements are subject to regulatory requirements to ensure a firm and its registered representatives consider and compare accurate and complete information about the costs and guarantees associated with the existing and proposed VA contracts. In New York, a firm also must adhere to the disclosure requirements set forth in Regulation 60 ("Reg. 60").[3]

VA Replacements constituted a substantial portion of MSI's business. During the Relevant Period, MSI sold at least $3 billion in VAs through 35,500 VA Replacements generating $152 million in gross dealer commission for the Firm. Nevertheless, MSI failed to implement an adequate supervisory structure to ensure that its registered representatives obtained and assessed accurate information concerning the recommended VA Replacements. Registered representatives were not provided adequate training or guidance on how to conduct a comparative analysis of material features of the existing and proposed VAs. The results of MSI's deficient systems and procedures are apparent. The Firm's principals ultimately approved 99.79% of the VA Replacements submitted to them for review, even though nearly three quarters of the applications for those replacements contained at least one misrepresentation or omission of material fact.

In addition, since at least 2009, MSI customers received misleading quarterly account statements that understate the total charges and fees incurred on certain VA contracts. Typically, the quarterly account statements misrepresent that the total fees and charges are $0.00 when, in fact, the customer paid a substantial amount in fees and charges.

As a result of the foregoing, MSI violated NASD Rules 2821(b), (d), and (e)[4] and 3010(a) and (b)[5] and FINRA Rules 2010, 2330(b), (d), and (e) and 3110(a) and (b).

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[2] The findings in this AWC are based on a review of a randomly selected sample of VA Replacements.

[3] Regulation 60, New York State Insurance Department, 11 NYCRR 51 (July 22, 1998).

[4] NASD Rule 2821 was superseded by FINRA Rule 2330 effective February 8, 2010.

[5] NASD Rule 3010 was superseded by FINRA Rule 3110 effective December 1, 2014.

FACTS AND VIOLATIVE CONDUCT

1. MSI's VA Replacement Business

Prior to making a recommendation to a customer to replace a VA, and to ensure the recommendation is suitable for the customer, MSI and its registered representatives are required to consider and compare material information associated with the customer's existing and proposed contracts, particularly the costs and guarantees of the existing and proposed VA.

Certain state laws also require firms to provide additional disclosure to customers regarding material terms of a VA replacement transaction. New York's Reg. 60 is one of the most comprehensive state regulations governing VA replacements. One of Reg. 60's stated purposes is to provide customers with "full and clear information on which an applicant of life insurance or annuities can make a decision in his or her own best interest; by reducing opportunity for misrepresentation and incomplete comparison in replacement situations..."

During the Relevant Period, MSI required its registered representatives to complete a replacement application for all VA Replacements. The paperwork associated with the replacement application included a section called the *Annuity Replacement and Transfer Disclosure* ("ARTD"), through which the Firm disclosed the required comparative cost and guarantee information about the existing and proposed VA contracts. MSI, pursuant to Reg. 60, also provided its New York customers at the point of sale with the *Regulation 60 Disclosure Statement* ("Disclosure Statement") as required. The Disclosure Statement contained a side-by-side hypothetical illustration ("Hypothetical") of both contracts that compared the contracts' death benefit and surrender values under three hypothetical market growth rates (0%, 6% and 12%), which, if accurate, would have allowed for a comparison of the impact of fees over time.

2. MSI Made Negligent Misrepresentations and Omissions of Material Fact on Applications for VA Replacements

During the Relevant Period, MSI negligently misrepresented or omitted material facts concerning the costs and guarantees associated with customers' existing VAs in the applications relating to VA Replacements. Seventy-two percent of the at least 35,500 applications for VA Replacements contained one or more material misrepresentation or omission of material fact. In every instance, the error understated the value of the existing VA contract, leading the customer to believe the proposed VA contract was more favorable than the customer's existing VA contract.

By negligently misrepresenting or omitting material facts to customers concerning costs and guarantees associated with the customers' existing VA contracts as described below, MSI violated FINRA Rule 2010. In addition, by recommending VA Replacements without assessing accurate information regarding material features of the proposed and existing VA contracts, MSI violated NASD Rule 2821(b) and FINRA Rule 2330(b).

a. MSI Overstated the Cost of the Customer's Existing VA Contract

The ARTD section of MSI's replacement application required registered representatives to inform a customer whether the proposed VA contract was more expensive than the existing VA contract. MSI's registered representatives answered this question incorrectly in 30% of its replacement applications by indicating that the proposed VA contract was less expensive than the customer's existing VA contract. In reality, the proposed VA contract was more expensive. For some, the proposed VA contract increased the customer's cost by an additional two percent annually.

b. MSI Failed to Disclose Forfeited Guarantees

The ARTD section of MSI's replacement application also required registered representatives to inform a customer of all guarantees that would be reduced or forfeited by replacing an existing VA contract. MSI's registered representatives, however, omitted from the ARTD section of the replacement application certain guarantees in the existing VA contract that were reduced or forfeited as a result of the VA Replacement including:

- *Accrued Death Benefit:* MSI, through its registered representatives, failed to disclose in 21% of applications the customer's accrued death benefit values. A death benefit is accrued when its value exceeds the account value of the contract. This can occur if the customer's death benefit provision contains a step-up feature. On a periodic basis, customers can lock-in, or step-up, to a higher death benefit value depending on market performance. Once a death benefit is locked-in, it can never be reduced by poor market performance. When a customer chooses to replace a VA, any accrued death benefit value (the amount by which it exceeds the account value) is forfeited.

- *Guaranteed Income Rider:* MSI, through its registered representatives, failed to disclose in 11% of applications that the customer was forfeiting an existing income rider benefit. A guaranteed minimum income rider can provide a future guaranteed income stream. MSI's failure to disclose that customers were going to forfeit this valuable benefit as a result of a VA Replacement was material when the proposed VA either did not include an income rider or included a more expensive income rider.

- *Fixed Interest Account Rider*: MSI, through its registered representatives, failed to disclose in 41% of applications that the customer was forfeiting an opportunity to invest in a guaranteed Fixed Interest Account. Many of the existing VA contracts held by the Firm's customers provided customers with a Fixed Interest Account as an investment option at no additional cost. Unlike other investment options available in MetLife's VA products, the Fixed Interest Account was a cash account that guaranteed principal and interest on the monies invested. In some cases, the guaranteed interest was as high as 3% or 4%. This account provided a safe, conservative alternative for customers. Since none of the proposed VAs included a Fixed Interest Account option, customers who had the option in their existing VA forfeited it by replacing their existing VAs.

c. MSI Misrepresented the Guaranteed Death Benefit Value on Reg. 60 Disclosure Statements

During the Relevant Period, MSI, in connection with certain VA Replacements, negligently misrepresented the guaranteed death benefit value on existing VA contracts in the Reg. 60 Disclosure Statement provided to customers in New York. MSI understated the future value of customers' existing guaranteed death benefit in the sections of the Hypothetical that assumed 0% and 6% future rates of return.

The errors occurred because the Reg. 60 calculators did not account for the five-year step-up death benefit – a standard feature on a majority of the Firm's VAs. The five-year step-up death benefit periodically locks-in a higher death benefit value depending on market performance. Because the Reg. 60 calculators failed to account for this feature, the Hypotheticals presented to customers failed to reflect the locked-in death benefit, thereby understating the future value of the customers' existing guaranteed death benefit, making the proposed VA contract appear more attractive.

From 2003 to 2015, the Reg. 60 calculators were not tested. As a result, the Reg. 60 calculators contained at least 19 separate deficiencies that went undetected and the defective calculators were used to prepare tens of thousands of Hypothetical illustrations.

3. MSI's Supervisory Failures

a. MSI Failed to Supervise VA Replacements

During the Relevant Period, the Firm failed to reasonably supervise VA Replacements in several respects.

First, the Firm did not implement reasonable supervisory systems, written supervisory procedures ("WSPs"), or training to ensure the Firm and its registered representatives obtained and assessed accurate information regarding costs and guarantees on VA replacement applications.

For example, the Firm did not provide sufficient training or guidance to its registered representatives on how to complete the ARTD. The Firm also did not identify or describe a process by which registered representatives could obtain required cost and benefit information to complete the ARTD. As a result, MSI registered representatives failed to gather required information and interpreted and answered questions on the ARTD incorrectly as described above.

The Firm also did not implement an adequate review of the replacement application to ensure the information included was accurate. By failing to ensure the accuracy of replacement applications, the Firm provided customers with inaccurate information in 72% of the applications for VA Replacements.

Second, the Firm did not implement reasonable supervisory systems, procedures, or training regarding its principal review of the suitability of the proposed replacement. The Firm relied on

an automated system to flag suitability issues in VA Replacements. However, this system was not sufficiently programmed to identify issues related to the required comparative analysis of the features of the VAs involved in such transactions. Moreover, MSI's principals did not consider that information in assessing whether a replacement was suitable for each customer.

The Firm required its registered representatives to provide a written explanation of the reason for the replacement in the "Representative Rationale" section of the replacement application; however, the Firm's WSPs did not require principals to evaluate that answer for purposes of accuracy.

As a result of these deficiencies, MSI principals ultimately approved 99.79% of VA Replacements that were submitted for their review by the Firm's registered representatives.

Third, the Firm failed to reasonably supervise VA Replacements subject to Reg. 60. MSI did not ensure that the Reg. 60 calculators were tested, implement a supervisory system or procedures to ensure that the Disclosure Statements were accurate, and implement procedures or training to instruct registered representatives on how they should interpret and explain the Hypothetical to customers.

b. MSI's Failed to Supervise Sales of the GMIB Rider

During the Relevant Period, the GMIB rider was the bestselling optional feature associated with VA sales. The rider was marketed to customers as a means of providing a guaranteed future income stream. The GMIB rider is complex and expensive – annual fees during the Relevant Period ranged from 1% to 1.5% of the VA's notional income base value.[6] The amount of guaranteed income is locked in when a customer elects to annuitize the contract.

During the Relevant Period, a frequently cited reason for MSI's recommendation of VA Replacements was to allow a customer to purchase the GMIB rider on the new VA contract. The Firm, however, failed to provide registered representatives and principals with reasonable guidance or training on the costs and features of the GMIB rider. For example, some registered representatives did not understand fees associated with the rider or that the GMIB rider fee was calculated using the income base value rather than the market value of the contract. This was significant because income base value was typically higher than the market value of the contract. In addition, some registered representatives did not understand the guaranteed income potential of annuitizing through the GMIB rider.

As a result of the foregoing, MSI violated NASD Rules 2821(d) and (e), 3010(a) and (b), and FINRA Rules 3110(a) and (b), 2330(d) and (e), and 2010.

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[6] VA contracts bearing the GMIB rider have a market value and an income base value. The market value is the current cash value of the contract less surrender fees. The income base is a notional value that grows at a pre-determined, fixed rate of return separate from the actual market value. Should the contract owner annuitize under the terms of the GMIB rider, the income base value is used as one component in determining the income stream owed to the annuitant.

4. **Negligent Misrepresentations on Quarterly VA Account Statements**

Since at least 2009, quarterly account statements sent to MSI customers have negligently misrepresented the costs of VAs. The quarterly account statements for certain VA products contain line items for "Total Charges and Fees" incurred by the customer during the respective statement period (i.e., for one quarter) and since inception date of the contract. These line items, however, do not actually reflect all of the charges and fees applied to the contract during the statement period or since the inception of the contract. Instead, these line items include some charges and fees, such as surrender or withdrawal charges, but exclude other charges and fees, such as mortality and expense fees, administration fees, and subaccount charge. The excluded charges and fees represent a significant cost to the customer – typically costing the customer, at minimum, 2.5 percent annually. In fact, the "Total Charges and Fees" line items are often listed as $0.00 when, in fact, the customer has incurred a substantial amount in fees and charges over the statement period or the life of the contract.

As a result of the foregoing, MSI violated FINRA Rule 2010.

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

1. Censure;

2. A $20 million fine; and,

The Firm further agrees to comply with the following undertakings:

3. Customer Payments for VA Replacement Contracts: Within 120 days of the date that this AWC is accepted, MSI is ordered to provide compensation for VA contracts held by current MSI customers and established by an MSI registered representative through a VA Replacement during the Relevant Period, according to a plan not unacceptable to FINRA, and totaling up to $5 million in the aggregate.

   a. Within 30 days of the date this AWC is accepted, the Firm shall provide, in writing, the factors and methodology it intends to use to identify and compensate customers. In the event FINRA does object the Firm will have an opportunity to address FINRA's objections and resubmit the plan within 30 days. FINRA will discuss its objections with MSI. A failure to resubmit to FINRA a plan that is reasonably designed to meet the specific requirements and general purpose of the undertaking will be a violation of the terms of this AWC.

   b. Within 30 days of the date the Firm's methodology is approved by FINRA, the Firm shall provide, in writing, a schedule of all customers identified as eligible for compensation. The schedule shall include details of the qualifying purchases and total dollar amounts of

compensation provided to each customer.

c. Compensation shall be paid to customers via a check payable to the VA contract owner and sent to the contract owner's address of record on file with MSI or, to the extent the customer no longer has an account with MSI, to the last known address of record.

d. The check shall be preceded or accompanied by a letter, not unacceptable to FINRA, describing the reason for the payment. The letter must make clear the payment is being made pursuant to a settlement with FINRA and as a term of this AWC. The letter also may not request a waiver of, or otherwise limit, any rights the customer has to pursue an action to obtain restitution or other remedies for grievances related to the customer's VA.

e. A registered principal of MSI shall submit satisfactory proof of payment of compensation to customers or of reasonable and documented efforts undertaken to effect such compensation to James Day, Vice President and Chief Counsel, FINRA Department of Enforcement, 15200 Omega Drive, 3rd Floor, Rockville, MD 20850 either by letter that identifies MSI and case number or by email to from a work-related account of the registered principal of MSI to EnforcementNotice@FINRA.org. This proof shall be provided to the FINRA staff member listed above no later than 150 days after acceptance of the AWC.

f. If, for any reason, MSI cannot locate a customer to whom compensation is owed after reasonable and documented efforts within 120 days from the date this AWC is accepted, or such additional period provided for under applicable state unclaimed property laws or otherwise agreed to by a FINRA staff member in writing, MSI shall forward any undistributed compensation amount to the appropriate escheat, unclaimed property or abandoned property fund for the state in which the customer is last known to have resided. MSI shall provide satisfactory proof of such action to the FINRA staff member identified above and in the manner described above, within 14 days of forwarding the undistributed compensation to the appropriate state authority.

g. MSI shall pay all costs and expenses associated with the administration of the payments described herein.

h. The imposition of a compensation order or any other monetary sanction herein, and the timing of such ordered payments, and the acceptance of compensation by the customer shall not preclude

customers from pursuing a separate action to obtain restitution or other remedies.

4. Certification Regarding Supervision of VA Replacements: MSI shall review and revise, as necessary, the Firm's systems, policies and procedures (written and otherwise) and training with respect to the areas described within Section I.A of this AWC. Within 60 business days of the date this AWC is accepted, the President of the Firm shall certify in writing to James E. Day, Vice President and Chief Counsel, at the address listed above that, with respect to the areas described in Section I.A. of this AWC, (i) the Firm has engaged in the review described above; and (ii) as of the date of the certification, the Firm has established and implemented systems and policies and procedures (written or otherwise) that are reasonably designed to achieve compliance with the applicable FINRA and NASD rules cited herein.

FINRA staff may in its discretion, upon a showing of good cause and upon written request, extend the dates for compliance with any of the terms of the undertakings.

MSI 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 it proposes to pay the fines imposed.

MSI 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

MSI specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

A. To have a Complaint issued specifying the allegations against the Firm;

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, the Firm 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.

The Firm 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

MSI 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 the Firm; and

C. If accepted:

1. this AWC will become part of the MSI'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. MSI 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. MSI 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. MSI may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. MSI 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.

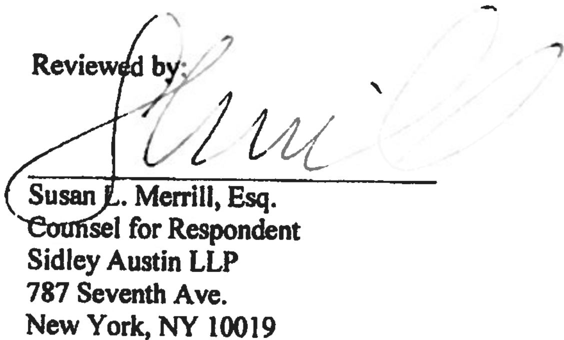
The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understand all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that the Firm agreed to its provisions voluntarily; and that no offer, threat, 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 me the Firm to submit it.

4-27-2016
Date (mm/dd/yyyy)

MetLife Securities, Inc., Respondent

By:
Orlando Cruz, President

Reviewed by:



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Cheryl L. Haas
Counsel for Respondent
McGuireWoods LLP
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Suite 2100
Atlanta, GA 30309-3534
Accepted by FINRA:

party.

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Date (mm/dd/yyyy) MetLife Securities, Inc., Respondent

By: ______________________
Orlando Cruz, President

Reviewed by:

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Susan L. Merrill, Esq.
Counsel for Respondent
Sidley Austin LLP
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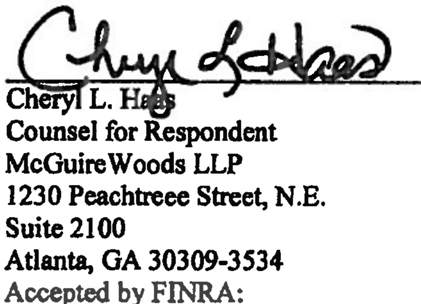
New York, NY 10019



Cheryl L. Haas
Counsel for Respondent
McGuireWoods LLP
1230 Peachtreee Street, N.E.
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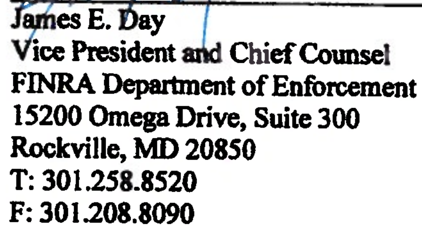
Accepted by FINRA:

5/3/16
Date

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



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