

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2005000682901**

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

RE: Ameriprise Financial Services, Inc., Respondent
BD. No. 6363

Pursuant to Rule 9216 of FINRA Code of Procedure, Respondent, Ameriprise Financial Services, Inc. ("Ameriprise"), 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 Ameriprise alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Ameriprise 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

Ameriprise has been a member of FINRA (f/k/a NASD or National Association of Securities Dealers) since 1972. Its principal offices are located in Minneapolis, Minnesota. The firm has over 14,000 registered representatives and over 4,000 branch offices.

Relevant Prior Disciplinary History

In July 2005, Ameriprise and the New Hampshire Bureau of Securities Regulation entered into a Consent Agreement in which the Bureau found that Ameriprise allowed its financial advisors to operate in a system in which they were pressured and rewarded for selling certain proprietary mutual funds. The Bureau also found that the firm's New Hampshire agents used employee-developed model portfolios consisting only of proprietary mutual funds that were implemented without adequate oversight or supervision, due diligence, testing and tracking. The Bureau found that these actions

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were in violation of N.H. Rev. Stat. Ann. §§ 421-B:3 and 421-B:4. Ameriprise neither admitted nor denied the findings by the Bureau. Pursuant to the terms of the Consent Agreement, the firm was fined \$5,000,000.

In May 2004, NASD found that Ameriprise did not meet certain recordkeeping requirements for electronic storage by failing to preserve, in an acceptable format, certain client records, including account statements, trade confirmations, and customer correspondence. NASD found that this conduct violated Rule 17a-4 of the Securities Exchange Act of 1934 and NASD Conduct Rules 2110 and 3110. The firm was censured and fined \$300,000.

Overview

During the period January 2002 through December 2004, Ameriprise awarded non-cash compensation to non-selling field leaders, through four sales incentive programs, based, in part, on criteria that favored or gave additional weight to the sale of the firm's proprietary mutual funds. For "non-selling field leaders," who supervised registered representatives but did not engage in selling activity, including Group Vice Presidents, Field Vice Presidents and certain other managers ("Field Leaders"), eligibility for the four incentive programs was measured using a scorecard. A component of each Field Leader's scorecard, which accounted for between 25% and 30% of the total score, measured the sale of the firm's proprietary investment company products, including Ameriprise's proprietary mutual funds, by the advisors who reported to that Field Leader. The top Field Leaders, based on their scorecard results, were awarded trips and credits to redeem for jewelry. The firm also awarded certain Field Leaders long-term incentive awards in the form of stock options and restricted stock awards based, in part, on the results of the Field Leader's scorecard.

As a result, the incentive programs that awarded non-cash compensation to Field Leaders based on their scorecard results were not based on the total sales of associated persons with respect to all investment company securities distributed by Ameriprise. These incentive programs also failed to give equal weight to the sale of all investment company products. Accordingly, the non-cash compensation incentive programs used by Ameriprise in 2002, 2003, and 2004 for its Field Leaders violated NASD Rules 2830(l)(5)(D)(i) and (ii) and 2110.

In addition, during the period January 2002 through August 2005, Ameriprise did not have sufficient procedures, including written procedures, that specified the time periods that customer transaction data must be maintained in an easily accessible place, as required by SEC Rule 17a-4. The firm also did not have adequate procedures that addressed how and when the data on its various systems, including customer transaction data, was to be maintained, kept or archived. By failing to establish and maintain procedures, including written procedures, reasonably designed to achieve compliance with the recordkeeping requirements of SEC Rule 17a-4 and NASD Rule 3110(a), Ameriprise violated NASD Rules 3010(b) and 2110.

Facts And Violative Conduct

Ameriprise violated NASD Rule 2830(I)(5)(D) through certain incentive programs available to its Field Leaders.

1. Ameriprise's non-cash compensation programs.

During the period January 2002 through December 2004, Ameriprise conducted incentive programs that awarded non-cash compensation to advisors and Field Leaders. For Field Leaders who supervised the firm's registered representatives, eligibility for four of these incentive programs was based on the Field Leader's performance during the prior year. During the period 2002 through 2004, a Field Leader's performance was measured by an internal document known as a "scorecard." The scorecards measured performance through eight separate factors. One of those factors was the gross dealer concession ("GDC") generated on the sale of the firm's proprietary products by the registered representatives that the Field Leader supervised.¹ This factor accounted for between 25% and 30% of each Field Leader's score. For purposes of the scorecards, "proprietary GDC" meant GDC earned on the sale of the firm's proprietary mutual funds, as well as other proprietary products distributed by Ameriprise.² The scorecards did not measure sales of individual products. Ameriprise discontinued the use of the proprietary component of the scorecard in March 2004. However, the non-cash compensation awarded throughout 2004 was based on the scorecard results for 2003, which included the proprietary component.

Field Leaders who scored highest on the scorecards received non-cash compensation through these four programs, including firm-sponsored trips and credits to redeem for jewelry. In 2002, approximately 72 Field Leaders were awarded trips to Cabo San Lucas, Mexico for the firm's Leaders Summit and 91 Field Leaders were awarded trips to New Orleans for the firm's National Conference. In 2003, approximately 71 Field Leaders were awarded trips to the firm's Leader's Summit in Carlsbad, California and approximately 112 Field Leaders were awarded trips to the firm's "Circle of Success Inner Circle" conference held in Las Vegas. In 2004, approximately 93 Field Leaders were awarded trips to Hawaii for the Leaders Summit and 134 Field Leaders received trips to San Francisco for the National Conference. For these trips, the firm paid for each Field Leader's expenses, including but not limited to hotel, land and air transportation, and meals. In addition, during the period 2002 through 2004, four Field Leaders were awarded credits to redeem for jewelry based on the results of their scorecards.

The approximate value of all of the non-cash compensation awarded to Field Leaders through these four incentive programs from 2002 to 2004 was as follows:

¹ The other factors were client acquisition, number of financial plans sold, total amount of business, invested assets per client, advisor appointments, percentage of advisor retention, and net gains in market group sales.

² During 2002 through 2003, Ameriprise classified a number of products as "proprietary" for compensation purposes, though they did not reflect investments solely in proprietary mutual funds. These included variable annuities, fixed annuities, insurance, 529 plans, Partners funds, and proprietary investments in SPS wrap accounts.

Program:	2002	2003	2004
"Circle of Success" Leaders Summit	\$303,741.64	\$273,362.28	\$394,868.39
"Circle of Success" Inner Circle	Not held in 2002	\$373,312.02	Not held in 2004
National Conference	\$277,678.01	Not held in 2003	\$487,889.07
Jewelry	\$6,800	\$3,400	\$3,600
Totals	\$588,219.65	\$650,074.30	\$886,357.46
Grand Total:	\$2,124,651.41		

In 2003 and 2004, Ameriprise also awarded long-term incentive awards in the form of stock options and restricted stock to eligible Field Leaders. The awards were based, in part, on each leader's scorecard for the previous year. As addressed above, one of the eight components of the scorecards was the GDC earned on the sale of proprietary products, including mutual funds. As a result of their performance as measured by the scorecards, in 2003, approximately 167 Field Leaders received restricted stock and/or stock options, and in 2004 approximately 163 Field Leaders received restricted stock and/or stock options. The total value of the restricted stock awarded to these Field Leaders during 2003 and 2004 was over \$15 million.

2. Ameriprise violated NASD Rule 2830(l)(5)(D) by awarding non-cash compensation to Field Leaders through non-cash compensation programs.

NASD Conduct Rule 2830(l) regulates non-cash compensation arrangements for the sale and distribution of investment company securities, including, but not limited to, mutual funds. Non-cash compensation is any form of compensation that is not cash and is received in connection with the sale and distribution of investment company securities, such as merchandise, gifts, prizes, restricted and unrestricted stock, travel expenses, meals and lodging.

Pursuant to Rule 2830(l)(5), no member or person associated with a member shall accept or make payment or offers of payment of any non-cash compensation except as provided by Rule 2830(l)(5). Pursuant to Rule 2830(l)(5)(D), non-cash compensation arrangements between a member and its associated persons are permitted only if:

- (i) the member's or non-member's non-cash compensation arrangement, if it includes investment company securities, is based on the total production of associated persons with respect to all investment company securities distributed by the member; [and]
- (ii) the non-cash compensation arrangement requires that the credit received for each investment company security is equally weighted.

During the period January 2002 through December 2004, Ameriprise violated NASD Rule 2830(l)(5)(D)(i) and (ii) by awarding non-cash compensation to Field Leaders through incentive arrangements that were based, in part, on the GDC earned on the sale of the firm's proprietary investment company products, rather than on the sale of all investment company products. These non-cash compensation arrangements were not based on the "total production of associated persons with respect to investment company securities distributed by the member." In addition, the non-cash compensation arrangements did not give equal weighting to the sale of all investment company products. Accordingly, these non-cash compensation programs violated NASD Rules 2830(l)(5)(D)(i) and (ii) and 2110.

Ameriprise violated NASD Rule 3010(b) by failing to establish and maintain procedures reasonably designed to ensure compliance with its record retention obligations under SEC Rule 17a-4 and NASD Rule 3110.

During the period from January 2002 through August 2005, Ameriprise violated NASD Rule 3010(b) by failing to establish and maintain procedures, including written procedures, reasonably designed to ensure compliance with the recordkeeping requirements of SEC Rule 17a-4. That rule sets forth the time periods that various categories of records must be retained by broker-dealers. The rule requires that, regardless of the retention period required by Rule 17a-4, the records must be retained for the first two years of the retention period "in an easily accessible place." NASD Rule 3110(a) requires that member firms comply with the retention requirements of Rule 17a-4.

During the period January 2002 through August 2005, Ameriprise had written policies and procedures relating to record retention. These procedures included various schedules that set forth the retention periods for certain documents and data. However, the written procedures, as well as the schedules, did not specify how long records, including customer transaction data, were required to be maintained in an easily accessible place. The firm also had no procedures that addressed how data on its various systems, including customer transaction data relating to mutual fund sales, was to be kept or archived. Rather, data was archived for different periods of time depending upon the particular system on which the data was maintained, the amount of data on the system, the performance of the system and subjective determinations by firm personnel. By failing to establish and maintain procedures, including written procedures, reasonably designed to achieve compliance with SEC Rule 17a-4 and NASD Rule 3110(a), Ameriprise violated NASD Rules 3010(b) and 2110.

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

1. A censure; and
2. a fine in the amount of \$145,000.

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

Ameriprise 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

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

- A. To have a Formal Complaint issued specifying the allegations against Ameriprise;
- B. To be notified of the Formal 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, Ameriprise specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, 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.

Ameriprise further specifically and voluntarily waives any right to claim that a person violated the *ex parte* prohibitions of Rule 9143 or the separation of functions prohibitions of 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

Ameriprise 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 me; and
- C. If accepted:
 - 1. this AWC will become part of Ameriprise's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Ameriprise;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Ameriprise's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8310 and IM-8310-2; and
 - 4. Ameriprise 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. Ameriprise 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 Ameriprise's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. Ameriprise may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Ameriprise 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.

Ameriprise certifies that it has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Ameriprise 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 Ameriprise to submit it.

11/12/07

Date

Ameriprise Financial Services, Inc.
Respondent

By: Eric J. Swanson
Eric J. Swanson
Vice President & Chief Counsel

Reviewed by:


Harvey Wolkoff, Esquire
Counsel for Respondent
Ropes & Gray, LLP
One International Place
Boston, MA 02110-2624

Accepted by FINRA:

12/10/07
Date

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

Thomas B. Lawson

Thomas B. Lawson
Chief Counsel
FINRA Department of Enforcement
1801 K Street, NW
Washington, DC 20006

STATEMENT OF CORRECTIVE ACTION

Ameriprise respectfully submits that the alleged deficiencies identified in the Letter of Acceptance, Waiver and Consent ("AWC") were corrected by Ameriprise – and, indeed, with respect to the non-cash compensation allegations, Ameriprise corrected the alleged deficiencies prior to FINRA's investigation.

Specifically, by March 2004, Ameriprise had eliminated any proprietary product differential in the scorecards, and therefore, no proprietary product was accorded more weight in determining any of the non-cash compensation granted to Ameriprise's non-selling field leaders. (As noted in the AWC, there was never a proprietary product weighting in the advisor scorecards, first developed in 2002.)

With respect to record retention policies, Ameriprise notes that in June 2006, Ameriprise hired Scott Ward to work in its General Counsel's Office as the Director of Records Management. The Director of Records Management coordinates records retention policies and will ensure that the policies are being applied consistently across all systems.

This Corrective Action Statement is submitted by the Respondent. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.