

DUE DILIGENCE RESEARCH:

HOW TO CHECK OUT YOUR BROKER

By Tracy Pride Stoneman

Through the NASD disclosure program, you can get background information on a broker or brokerage firm, including final or pending disciplinary actions, civil judgments and NASD arbitrations, and criminal convictions or indictments required to be disclosed to the NASD.

For many years, securities firms have been required to file reports with the National Association of Securities Dealers (NASD) that disclose a vast array of information about both the brokerage firms and their individual brokers.

Much of that information is available to the general public through the NASD's Public Disclosure Program. And now that information can be obtained even more easily from the NASD Regulation's Web site (www.nasdr.com).

How do you get the information, and what's available?

Information can be obtained either by completing and submitting an electronic request form at the NASD Regulation's Web site, or by filing a Public Disclosure Form (available by calling the toll-free hotline 800/289-9999; or by writing: Public Disclosure, NASD Regulation, Inc., P.O. Box 9401, Gaithersburg, Maryland 20898-9401; Fax: 240/386-4750).

INDIVIDUAL BROKERS

Information on individual brokers is available as long as the person is currently licensed with the NASD or was licensed within the last two years.

The on-line review information identifies the broker and lists the states and entities with which he or she is currently licensed. You might want to run this check if you are doing business with an out-of-state broker—your state abbreviation should show up in this box. If it doesn't, then you should notify your state securities regulator and your broker's manager, and you should cease doing business with that broker.

Employment information includes the name of the current employer, the office where the broker works, and the date the broker began employment at the firm. Previous employment discloses the offices where the broker worked, as well as start and end dates, for all previous employments in the securities industry.

The registrations section provides the jurisdictions in which the broker is currently registered or licensed to do business, the category of each registration, and the date on which the registration approval was granted.

The disclosure events section concerns the broker's record—if there are no disclosure events, that means the broker was not the subject of certain types of actions. It does *not* necessarily mean that your broker has a clean record. A complete record of customer complaints can be obtained by calling your state securities board, or the state securities board where the broker lives.

If, on the other hand, the disclosure events review states "maybe," there may be events that occurred in the broker's past that are related to their conduct as a broker.

Disclosure events include the following:

- Criminal events (for example, all felony charges and convictions, as well as certain misdemeanor charges and convictions, such as theft of money, bribery, etc.);
- Regulatory actions (for example, suspensions or bars) by the Securities and

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- Exchange Commission or other federal regulators, state regulatory authorities, self-regulatory organizations or foreign financial regulatory authorities;
- Violation and/or sanction or the issuance of an order;
- Civil judicial events (for example, injunctions);
- Any pending investigations or regulatory proceedings that could result in a regulatory action;
- Consumer complaints filed within the past two years that claim damages of over \$5,000, or allege forgery, theft, misappropriation or conversion of funds or securities, or complaints that settled for \$10,000 or more;
- Arbitration proceedings and civil litigations concerning sales practice violations that are either pending, resulted in a judgment against the broker, or were settled for \$10,000 or more;
- Bonding company denials, payouts, or revocations;
- Outstanding judgments and liens;
- Financial disclosure events within the past 10 years, such as bankruptcies, unsatisfied judgments, and liens;
- Any terminations of employment due to allegations of investment-related misconduct.

Request forms (submitted either electronically, by fax, or by mail) must be filed to receive information on disclosure events. The detailed report includes a succinct summary chart that will give statistics on all disclosure events. For example, a broker's chart may reflect the following:

Criminal Actions:	1
Regulatory Actions:	0
Civil Judicial Actions:	0

Terminations:	0
Customer Complaints:	3
Investigations:	0
Bonds:	0
Bankruptcies:	1
Judgment/Liens:	2

The report then gives additional details on each event. For example, for consumer complaints, the information reported includes:

- The Reporting Source: There may be several sources for the same complaint, including the broker and his employer.
- The Date Reported: Brokers and firms are required to report complaints within 30 days of their receipt.
- The Employing Firm: Where the broker was employed when the events giving rise to the complaint arose.
- Allegations: The report, for instance, could be triggered by a simple complaint letter containing the claims.
- Amount of Alleged Damages;
- Whether or not there is an action pending;
- Any resolutions to the complaint;
- Any civil arbitration details.

BROKERAGE FIRMS

To research a brokerage firm, you run through the same steps outlined above. The information detailed is similar: address information, the types of business the firm is engaged in, the legal status of the firm, the firm's registrations, and disclosure events.

Neither the broker nor the firms that you review on-line or on which you request reports have any knowledge about your investigation. You are anonymous. However, your

broker should be aware that you can access this information.

WHAT'S NOT INCLUDED

You should also be aware of what is not included in the disclosure events reports. This includes information that was never reported, that is not required to be reported, or is no longer required to be reported, such as:

- Non-investment related misdemeanors originally reported in error;
- Judgments and liens originally reported as pending that subsequently have been satisfied;
- Bankruptcy proceedings filed more than 10 years ago;
- Consumer-initiated complaints that are settled for less than \$10,000 or that have not resulted in arbitration claims or civil litigation, unless these have occurred within the last two years;
- Information that is ordered expunged by a court or is required by law to be expunged.

DUE DILIGENCE

Don't hesitate to address any concerns you have with your broker or his or her firm. And if your investigation reveals that your broker has misrepresented a few things to you, it may be time for a new broker.

While the vast majority of stock-brokers are honest, hard-working individuals with clean records, there are some bad apples out there, and it is better to find out sooner—before you hire them or at least before problems develop—rather than later. ♦