

FINRA Fines AXA for Misrepresenting Junk Bond Funds as Investment-Grade

The Financial Industry Regulatory Authority has fined AXA Advisors \$600,000 for allegedly misrepresenting the credit quality of certain bond funds offered within group annuity contracts for 401(k) retirement plans.

Bonds are assigned credit ratings that represent their creditworthiness and published by credit rating agencies such as Moody's Investors Service and Standard & Poor's. Generally, a bond that receives a credit rating of Baa3 or higher from Moody's, or BBB- or higher from Standard & Poor's, is deemed to be an "investment-grade" bond. Bonds that receive lower ratings are known as "high-yield" or "junk" bonds.

AXA sells group annuity contracts for employer-sponsored 401(k) retirement plans that an affiliated life insurance company issues and administers. The firm is responsible for selling and servicing these group annuity contracts, and receives compensation based on the percentage of plan assets invested in the contracts.

FINRA claims that AXA distributed enrollment forms, investment options attachments, and other documents created by its affiliated life insurance company, which misrepresented that five bond funds offered within some of the group annuity contracts were "investment-grade," when a substantial portion of the funds' portfolios consisted of high-yield or junk bonds.

For example, the fund that affected the largest number of plans and participants, which was represented as an investment-grade fund, held approximately 65 percent of its bond portfolio in high-yield bonds as of March 31, 2015.

FINRA said that AXA distributed approximately 14,500 enrollment forms and 2,500 investment options attachments that misclassified the funds, affecting approximately 800 retirement plans and 6,200 plan participants from September 2010 through November 2015.

In addition to the \$600,000 fine, AXA must also pay restitution totaling approximately \$172,500 and send corrective disclosures to all affected plan participants.

AXA is based in New York City and has approximately 5,993 registered persons and 1,029 branch offices.

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