

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 80016 / February 10, 2017

ADMINISTRATIVE PROCEEDING
File No. 3- 17840

In the Matter of

**Columbia Management
Investment Services Corp.,**

Respondent.

**ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-AND-
DESIST PROCEEDINGS, PURSUANT TO
SECTIONS 17A AND 21C OF THE
SECURITIES EXCHANGE ACT OF 1934,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 17A and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Columbia Management Investment Services Corp. (“Columbia” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (“Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Sections 17A and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds¹ that:

¹ The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Summary

Ronald S. Hunt, a former Records Management Manager at Columbia, misappropriated approximately \$1.2 million in shareholder funds serviced by Columbia through a fraudulent scheme conducted between February 13, 2013 and October 8, 2013 (the “Relevant Period”). Hunt misappropriated funds from the accounts of two deceased shareholders who resided overseas (the “Victims”) by falsifying documents purporting to instruct Columbia to transfer the Victims’ mutual fund securities to estate accounts bearing a fictitious executor’s name, fully liquidate the securities, and distribute the sale proceeds to a U.S. bank account Hunt controlled. Columbia had supervisory policies and procedures as well as certain safeguards and procedures to protect customer funds and securities and shareholder information against misuse. Those procedures, however, were insufficient, and did not protect shareholder information, funds, and securities from misuse, in light of all facts and circumstances, including the fraudulent actions of Hunt. Hunt’s misappropriation was not discovered until five months later when the legitimate legal representative of one of the Victims’ estates attempted to redeem the securities for that account, but the account had already been liquidated and closed. Columbia made both shareholder accounts whole, referred Hunt to federal law enforcement, and subsequently recovered all of the misappropriated funds from Hunt.

Respondent

1. Columbia Management Investment Services Corp. is incorporated in Minnesota and has its principal offices in Boston, Massachusetts and Providence, Rhode Island. Columbia is a transfer agent registered with the Commission pursuant to Section 17A(c)(2) of the Exchange Act. Columbia primarily acts as a transfer agent for mutual funds. As a transfer agent, Columbia handles both securities and funds for shareholders. Among other things, Columbia acts as a redemption agent for multiple Columbia mutual funds.

Relevant Person

2. Ronald S. Hunt, 45, during the Relevant Period was a resident of Barrington, Rhode Island. He was Columbia’s Records Management Manager from March 2011 until his termination on October 14, 2013. Hunt was an associated person of Columbia and subject to Columbia’s supervision.

Hunt’s Misappropriation of the Victims’ Funds

3. From at least March 2011 until his termination in October 2013, Hunt was responsible for certain mail functions, electronic and paper records management, as well as maintaining and researching Columbia’s archived records (such as older micrographic and paper records managed separately from current electronic records).

4. During the Relevant Period, Columbia had a policy to place a “stop code,” or stop transfer restriction, on any shareholder account if Columbia received notice of the shareholder’s death. Knowing this was Columbia’s policy, on February 13, 2013, Hunt made an email request to Columbia’s Business Support team (“Business Support”) to obtain a list of all foreign accounts with a stop code. Hunt and others at Columbia referred to such a list as a “foreign RPO list”

("RPO" is shorthand for "return post office"). Hunt indicated to individuals involved in facilitating the request that his purpose for the list was related to an on-going project pertaining to foreign accounts. Hunt did not have a valid business reason for his request and Columbia did not verify the reason for Hunt's request which was eventually effectuated through another employee.

5. Hunt admitted that his purpose for making the request was to identify vulnerable foreign accounts of deceased shareholders. Hunt said he knew that if the account of a deceased U.S. shareholder becomes inactive and the funds and securities held therein are not claimed, they may, after an applicable statutory period, be subject to state unclaimed property and escheat laws. However, the accounts of foreign deceased shareholders differ because the funds and securities held therein do not escheat to a state and thus could remain dormant indefinitely. Hunt considered an "RPO" list to be equivalent to unclaimed property.

6. On or about February 15, 2013, Hunt received a foreign account list from Business Support that could be filtered by various stop codes. Hunt filtered the list to identify deceased foreign shareholder accounts and determine the accounts' market value. Ultimately, Hunt targeted the Victims' accounts for his scheme because they belonged to related, deceased shareholders who resided overseas and the accounts contained mutual fund securities with a combined value of approximately \$1.2 million.

7. On or around February 25, 2013, Hunt viewed the Victims' records in Columbia's electronic shareholder recordkeeping system. For instance, Hunt viewed sensitive personal account information such as addresses, dates of birth, and identification numbers. Columbia required such information to process a transaction in a customer account. At this time Hunt noticed that Columbia had placed a "hold" on the Victims' accounts because it had received notification from the estates of the Victims.

8. During the Relevant Period, Columbia had a written policy requiring anyone presenting certain types of transaction instructions, such as redemption instructions exceeding certain monetary thresholds, to obtain a Medallion Signature Guarantee ("MSG") before Columbia would accept and process the transaction. A MSG is a guarantee an eligible financial institution, such as a bank or credit union, may provide for its customers. A MSG stamp guarantees the authenticity of the customer's signature and indicates that the issuing institution has assumed liability for the financial value of the transaction in the event the signature is not authentic.

9. Hunt opened a bank account at a bank in Barrington, Rhode Island registered in the name "Celtic Savings" (the "Celtic Savings" account). Hunt was the principal owner of the account. Hunt selected the bank because it provided signature guarantee services for its customers.

10. On May 12, 2013, Hunt forged instructions purporting to direct Columbia to transfer the Victims' mutual fund securities to estate accounts bearing a fictitious executor's name, fully liquidate the securities, and wire the sale proceeds to the Celtic Savings account. Hunt accomplished this by using erasable ink to complete two, four-page Columbia redemption request forms purportedly for his own securities accounts at Columbia. Hunt then obtained a MSG stamp on the fourth page (*i.e.*, signature page) of both forms from the bank, indicating that his signature was genuine. Later, Hunt erased his signature from both forms and replaced it with the forged signature of "Sean Kane," a fictitious executor he created to further his scheme and conceal his

identity, and added “Executor” next to his name. It was Columbia’s practice to accept an assertion that the signature was an executor on the signature line. Hunt next replaced the first three pages of both redemption forms with pages he completed under the pseudonym Sean Kane, referencing the Victims’ account information he obtained from Columbia’s shareholder recordkeeping system.

11. On or about May 13, 2013, Hunt submitted the forged redemption request forms to Columbia by U.S. mail. Columbia, through its sub-transfer agent, Boston Financial Data Services, received them on May 19, 2013.

12. On May 20, 2013, Columbia transferred the securities in the Victims’ accounts to accounts registered in the name of Sean Kane for the benefit of the Victims’ estates, liquidated the securities, and wired the sale proceeds to the Celtic Savings account that Hunt controlled. Hunt then used the Victims’ funds for various personal expenditures.

13. Prior to Hunt’s fraudulent conduct being discovered, Hunt attempted to conceal his misappropriation by using Columbia’s electronic shareholder recordkeeping systems to access the Victims’ account records without a legitimate business purpose. A few days before his conduct was discovered, Hunt altered the tax coding on their accounts for the intended purpose of preventing tax reporting notices reflecting the redemptions from being sent to the addresses on the Victims’ accounts.

14. On or about October 8, 2013, Columbia discovered Hunt’s misappropriation when the legitimate legal representative of one of the Victims’ estates submitted redemption forms applicable to the account that had already been closed, and Columbia began a review. That evening, Hunt informed Columbia of his misappropriation, was immediately suspended, and was subsequently terminated on October 14, 2013. Upon discovery of Hunt’s misappropriation, Columbia repaid the funds Hunt misappropriated from Victims’ accounts, making them whole.

Columbia’s 17Ad-12 Safeguards and Procedures were Inadequate to Protect Funds and Securities Against Theft or Misuse

15. Exchange Act Section 17A(d)(1) and Exchange Act Rule 17Ad-12 require every registered transfer agent with custody or possession of any funds or securities related to the transfer agent’s activities to assure that: (1) all such securities are held in safekeeping and are handled, in light of all facts and circumstances, in a manner reasonably free from risk of theft, loss, or destruction, and (2) all such funds are protected, in light of all facts and circumstances, against misuse. Each transfer agent should exercise responsible discretion in adopting safeguards appropriate for its own operations.²

16. After reviewing its own operations, computer systems, personnel policies, and other facts and circumstances related to its transfer agent activities, Columbia determined that certain policies and procedures pertaining to safeguarding must be employed in order to comply with Rule 17Ad-12. Columbia’s policies and procedures relating to the safeguarding of shareholder securities and funds were included in Columbia’s written compliance manual titled Transfer Agent

² Exchange Act Release 19860 (June 10, 1983) (“[T]he Commission noted that each transfer agent should exercise responsible discretion in adopting safeguards appropriate for its own operations.”).

Compliance program, Section X.A., Safeguarding Funds & Securities, Shareholder Information & Records (“Safeguarding Procedures”), and were effective during the Relevant Period.

17. Columbia’s Safeguarding Procedures indicated that they were designed to “reasonably protect funds and securities in the form of bank accounts, certificates, checks, shareholder information on systems, and shareholder information in records from risk of theft, loss, destruction or misuse”. Toward that end, the Safeguarding Procedures required Columbia to, among other things, safeguard shareholder information, such as customer account information, stored in Columbia’s computer systems.

18. Notwithstanding the foregoing, Columbia failed to implement and enforce these particular safeguards and procedures that the firm itself determined must be employed to protect customer funds, securities, and information against misuse. Columbia was aware that shareholder recordkeeping allowed for the creation of reports containing sensitive account details that created heightened risk for fraud pertaining to those shareholder accounts. Columbia implemented a procedure for employees to obtain such shareholder reports. The procedure required an employee to indicate, among other things, the business reason for requesting the shareholder report. Columbia failed to implement any mechanism to address whether the employee had a legitimate business justification for obtaining the shareholder report. Without such validation, Hunt was able to obtain a shareholder report containing sensitive account information belonging to foreign deceased shareholders and effectuate his fraudulent scheme. Columbia, therefore, failed to implement and enforce a policy reasonably designed to ensure that employees had a legitimate business justification for obtaining such reports. As a result, Columbia failed to maintain Safeguarding Procedures reasonably designed to assure that all securities in its custody or possession were held in safekeeping, handled in a manner reasonably free from risk of theft, loss, or destruction, and that all funds in its custody or possession were protected against misuse, as required by Exchange Act Rule 17Ad-12.

19. Further, Columbia was aware that accounts with a “stop code” generally, and accounts with a stop code belonging to foreign deceased shareholders specifically, were at heightened risk for misuse and external and internal fraud, necessitating special protections for the funds and securities held therein. Notwithstanding this knowledge, Columbia failed to evaluate which particular additional safeguards and procedures to employ in order to reasonably assure that the securities and funds held in vulnerable stop code accounts were protected. Throughout the period of Hunt’s tenure, Columbia’s Safeguarding Procedures did not include specific safeguards and procedures to reasonably assure those foreign deceased shareholders’ funds and securities were not misappropriated by employees who had access to information identifying all stop code accounts as well as access to the creation of a shareholder report with sensitive account information without a legitimate business justification. As a result, Columbia’s Safeguarding Procedures were inadequate, in light of its operations and risks, to protect customer funds and securities as required by Exchange Act Rule 17Ad-12.

Columbia Failed Reasonably to Supervise Hunt

20. As a result of the conduct described above, Hunt violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. Hunt was an associated person of Columbia, subject to Columbia’s supervision.

21. Columbia failed reasonably to implement its supervisory policies and procedures with a view of preventing and detecting Hunt's misappropriation of shareholder funds and securities. In particular, Columbia had policies and procedures that, among other things, required the completion of a form prior to receipt of sensitive shareholder information such as a "foreign RPO list." The form required the employee to set forth the business reason the employee was requesting the shareholder report. Columbia failed to validate whether Hunt had a legitimate business justification for the report. Columbia, therefore, failed to develop a procedure to monitor whether Hunt had a legitimate business reason for obtaining a report that contained deceased foreign shareholder information and to develop specific safeguards and procedures to reasonably assure those foreign deceased shareholders' funds and securities were not misappropriated by employees who had access to information identifying all stop code accounts.

Violations and Failure Reasonably to Supervise

22. As a result of the conduct described above, Columbia violated Section 17A(d)(1) of the Exchange Act and Rule 17Ad-12 thereunder, which prohibit a transfer agent from engaging in any activity that fails to assure that all funds and securities held in its custody or possession, and related to its transfer agent activities, are safeguarded and protected.

23. Under Sections 17A(c)(3) of the Exchange Act, the Commission may sanction transfer agents for failing reasonably to supervise, with a view to preventing and detecting violations of the federal securities laws, another person who commits such a violation, if such other person is subject to his supervision. As a result of the conduct described above, Columbia failed reasonably to supervise Hunt, within the meaning of Section 17A(c)(3) of the Exchange Act, with a view of preventing and detecting Hunt's violation of Section 10(b) of the Exchange Act and Rule 10b-5 by theft of shareholder funds and securities.

Respondent's Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts undertaken by Respondent, such as enhancements to its redemption form, implementation of additional level approvals for certain data requests, and cooperation afforded the Commission staff, including Respondent's prompt notification to the Commission and law enforcement of Hunt's misappropriation.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 17A and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent shall cease and desist from committing or causing any violations and any future violations of Section 17A(d)(1) of the Exchange Act and Rule 17Ad-12 thereunder.

B. Respondent is censured.

C. Respondent shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of \$250,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury in accordance with Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717. Payment must be made in one of the following ways:

- (1) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (2) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Columbia as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Gerald W. Hodgkins, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F Street, N.E., Washington, DC 20549.

D. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Brent J. Fields
Secretary