OFFICE OF THE
ATTORNEY GENERAL
STATE OF NEW JERSEY
BUREAU OF SECURITIES
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IN THE MATTER OF: AMERICAN EXPRESS FINANCIAL ADVISORS INC., CRD # 6363	CONSENT ORDER

BEFORE FRANKLIN L. WIDMANN, BUREAU CHIEF

The Bureau Chief makes the following findings, which American Express Financial Advisors, Inc. neither admits nor denies:

1. American Express Financial Advisors Inc. ("AEFA") is a broker-dealer registered with the State of New Jersey, Bureau of Securities (the "Bureau") which maintains corporate headquarters at 707 Second Avenue South, Minneapolis, Minnesota. AEFA operates through various branch office locations, including branch offices located at 2630 East Chestnut Avenue, Vineland, New Jersey (the "Vineland Office") and 1105 Laurel Oak Road, Voorhees, New Jersey (the "Voorhees Office").

2. In late 2004, AEFA voluntarily brought to the Bureau's attention an internal investigation it had initiated as a result of customer complaints against a registered agent in the Voorhees Office, Arthur Davidson ("Davidson"). The investigation disclosed that Davidson, an independent contractor working with AEFA pursuant to a franchise agreement (known within AEFA as a "Franchisee Advisor"), had forged client signatures

on financial advisory service agreements and mutual fund redemption forms in order to obtain money from his clients, in the form of commissions, without their knowledge or consent. Upon receipt of this information, the Bureau instituted its own investigation of AEFA's activities, including its supervisory procedures.

3. The Bureau's investigation identified areas of concern with respect to AEFA's supervision of Franchisee Advisors licensed in the State of New Jersey, most notably:

a. weaknesses in the enforcement of procedures to reasonably ensure that the forging of client signatures could be detected by the client and/or supervisory personnel in a timely manner;

b. weaknesses in the supervision of financial advisory services contracts entered into by AEFA;

c. weaknesses in the surveillance of financial advisory services; and

d. weaknesses in the selection process by which registered principals historically had been assigned and paid directly by financial advisors for supervision in New Jersey, which perceived weaknesses have been addressed and corrected.[1]

4. AEFA has fully cooperated with the Bureau's investigation by:

a. promptly bringing the Davidson investigation to the attention of the Bureau, and fully sharing the results of its investigation;

b. conducting a further internal investigation into issues raised at the outset of the Bureau's investigation, including forgeries;

[1] A registered principal is an individual, qualified through examination, responsible for providing compliance supervision to registered and unregistered individuals associated with a financial services firm.

c. proposing and agreeing to implement changes to its supervisory and surveillance practices;

d. providing the Bureau with prompt access to personnel; and

e. complying with requests for information from the Bureau.

5. AEFA has initiated or intends to initiate certain changes to its supervisory procedures, that include:

a. prohibiting a registered principal from serving a Franchisee Advisor in the State of New Jersey as both his compliance supervisor and business consultant;

b. sending client confirmation notices to all customers who sign a new financial advisory services agreement (beginning in September 2005);

c. increasing training and awareness for the detection and prevention of signature violations, including forgery and other signature issues;

d. enhancing supervision at the registered principal level of the fees charged by Franchisee Advisors for financial advisory services agreements (beginning in Fall 2005);

e. enhancing review at the registered principal level of financial services deliverables at the time of delivery to the client (beginning in Fall 2005);

f. implementing new home office surveillance to detect inappropriate activities related to financial advisory services and to monitor advisor sales of financial advice products;

g. requiring Franchisee Advisors to pay all supervisory fees directly to AEFA; and

h. implementing a system that assigns compliance supervision based on geographic proximity, assigns an on-site supervisor where one exists, and eliminates the ability of the Franchisee Advisor to choose his own compliance supervisor.

WHEREAS the Bureau, part of the Office of the Attorney General, is the State agency with the responsibility to administer and enforce the Uniform Securities Law (1997), N.J.S.A. 49:3-47 *et seq.*, (the "Securities Law"); and

WHEREAS N.J.S.A. 49:3-67 authorizes the Bureau Chief from time to time to make such orders as are necessary to carry out the provisions of the Securities Law upon a finding that the action is necessary or appropriate in the public interest or for the protection of investors and consistent with the purposes fairly intended by the provisions of the Securities Law; and

WHEREAS AEFA and the Bureau wish to resolve these issues without the expense and delay that administrative proceedings would involve; and

WHEREAS AEFA admits the jurisdiction of the Bureau of Securities, over this matter, neither admits nor denies the findings of fact and conclusions of law contained in this Order, and consents to the entry of this Order by the Chief of the Bureau of Securities; and

WHEREAS AEFA has made restitution in excess of $450,000 to clients of Arthur Davidson; and

WHEREAS AEFA, in cooperation with the Office of the Attorney General and the Bureau, is continuing to investigate the activities of Davidson and others as to certain

practices in order to identify whether or not any additional repayments to clients of AEFA are warranted; and

WHEREAS AEFA represents that it will report all issues identified by the above investigation to the Bureau and where appropriate fully compensate all New Jersey clients identified as a result of AEFA's above investigation who suffered losses as a result of the identified activity; and

WHEREAS AEFA, at the direction of the Bureau, has initiated a preliminary study of its procedures and operations within the State to uncover additional instances of forgery; and

WHEREAS this Consent Order concludes any and all investigations by the Bureau and any civil or administrative action that has or could be commenced against AEFA under the Securities Law on behalf of the State of New Jersey regarding all matters that the Bureau currently has knowledge of relating to AEFA; and

WHEREAS the Bureau has a continuing interest in the investigation into the activities of Davidson and other Franchisee Advisors who may be identified as having engaged in similar conduct; and

WHEREAS AEFA agrees that for the purposes of any future proceedings before the Bureau that this Order shall have the same effect as if proven and ordered after a full hearing held pursuant to N.J.S.A. 52:14B-1 *et seq.*; and

WHEREAS AEFA has represented that it will continue to cooperate with the Bureau in any ongoing investigation of Davidson and other Franchisee Advisors in New Jersey who may be identified as having engaged in similar conduct, and any other

ongoing investigations of individuals presently or formerly employed by or associated with AEFA and licensed in New Jersey; and

WHEREAS the Bureau finds that AEFA's failure to establish and/or enforce procedures necessary to detect the activities of Davidson and other Franchisee Advisors who may be identified as having engaged in similar conduct constitutes a failure to supervise and is grounds, pursuant to N.J.S.A. 49:3-58 and 67, for the entry of an order assessing a civil monetary penalty and such other remedies as may be necessary in the public interest; and

WHEREAS the Bureau Chief has found that the entry of this Order is appropriate in the public interest and consistent with the purposes fairly intended by the policy provisions of the Securities Law and the regulations promulgated thereunder.

NOW THEREFORE, it is on this 29 day of June 2005, HEREBY ORDERED that AEFA, by consent and without further hearing, Cease and Desist from further violations of the New Jersey Uniform Securities Act; and it is

FURTHER ORDERED that within 30 business days from the date of entry of this Order, AEFA shall retain an independent expert, not objectionable to the Bureau, to review AEFA's supervisory procedures regarding its financial planning business. The independent expert shall consult with AEFA and the Bureau to identify areas of concern; and it is

FURTHER ORDERED that within 90 business days from the date of entry of this Order, AEFA shall require the independent expert to furnish a report to AEFA which shall be reviewable by the Bureau and, at a minimum, addresses the scope and subject matter specifications agreed to pursuant to this Order; and it is

FURTHER ORDERED that within 30 business days from the date of the independent expert report, AEFA shall submit to the Bureau a report outlining all changes it intends to make to its business practices and supervisory procedures in response to the independent expert report, including a timeline for implementation that is not objectionable to the Bureau; and it is

FURTHER ORDERED that no later than November 30, 2005, AEFA shall implement all changes set forth in paragraph 5 above; and it is

FURTHER ORDERED that, pursuant to N.J.S.A. 49:3-70.1, AEFA is assessed and shall pay a civil monetary penalty in the amount of $5,000,000 (the "Settlement Funds"). Upon entry of this Order by the Bureau Chief, AEFA shall immediately deposit the Settlement Funds into counsel for AEFA's interest bearing trust account. The Settlement Funds, with all accrued interest, shall be payable to the "State of New Jersey, Bureau of Securities" at the direction of the Bureau Chief and no later than 45 days following the execution of this agreement. The Settlement Funds shall be deposited in the Securities Enforcement Fund established pursuant to N.J.S.A. 49:3-66.1.

OFFICE OF THE ATTORNEY GENERAL
NEW JERSEY BUREAU OF SECURITIES
STATE OF NEW JERSEY

By: Elizabeth J. Mackay, Acting Bureau Chief
for Franklin L. Widmann
Chief, Bureau of Securities

Anita M. Lascurain
Section Chief
Department of Law and Public Safety
Office of the Attorney General

DATED: June 27, 2005
Newark, New Jersey

I hereby consent to the form and entry of this order without admitting or denying the allegations, findings, and conclusions of law set forth herein.

By
John C. Junck
General Counsel
American Express Financial Advisors Inc.

DATED: 27 June 2005

JEAN M. COMSTOCK
NOTARY PUBLIC
State of New York
No. 01006001221
Commission Expires: Jan. 5, 2006
Jean M. Comstock