

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20060065096**

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

RE: Edward D. Jones & Co., L.P., Respondent
Member Firm
BD No. 250

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent 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 Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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

Edward D. Jones & Co., L.P. ("Edward Jones" or the "firm"), a Missouri limited partnership, is a full-service broker-dealer and has been a member of FINRA since 1939. The firm's principal offices are located in St. Louis, Missouri. It has more than 10,000 branch offices throughout the United States typically staffed by one registered representative.

RELEVANT PRIOR DISCIPLINARY HISTORY

In September 2005, FINRA fined Edward Jones \$300,000 for violating MSRB Rule G-15 by failing to disclose the yield to maturity on more than 86,000 confirmations issued to customers who sold municipal securities from January 2003 to April 2004. The firm was also charged with violating MSRB Rule G-27 for failure to establish a supervisory system and procedures.

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OVERVIEW

From 2002 to 2008, Edward Jones violated MSRB Rule G-32 in new issue transactions in which it was not a syndicate member. This rule requires broker-dealers to deliver official statements by settlement date to customers who purchase new issue municipal securities. From 2002 to 2006, the firm's violations of Rule G-32 were systemic. During this initial four-year period, the firm was repeatedly on notice that it was not timely delivering official statements, but failed to take reasonable and sufficient steps to comply with its delivery obligations when the firm was not a member of the syndicate. The firm's failures were due to multiple problems, including incorrect instructions to those responsible for mailing the official statements, failure to timely print and make copies of official statements, and inattention to a number of systemic deficiencies, including the failure to obtain official statements from the underwriter or syndicate in a timely manner. Violations of Rule G-32 continued to occur from 2006 to 2008.

The firm also failed to keep books and records regarding official statement deliveries as required by MSRB Rule G-8, and failed to establish and maintain adequate supervisory systems and procedures. As a result, Edward Jones violated MSRB Rules G-32, G-8, G-27, and G-17.

FACTS AND VIOLATIVE CONDUCT

MSRB Rule G-32: Disclosures in Connection with New Issues

MSRB Rule G-32(a) requires, with limited exceptions, broker-dealers selling a new issue municipal security to deliver a copy of the issue's official statement to the customer on or before settlement date of the purchase. Delivery by settlement date is presumed to have been made if the official statement is placed in the mail at least three business days before settlement date.¹

MSRB Rule G-32(d) defines when municipal securities are "new issue" for purposes of determining when broker-dealers must deliver official statements to their customers. "New issue municipal securities" are those sold during the "new issue disclosure period."² That period begins with the first submission to an underwriter of an order or the purchase of the securities from the issuer (whichever occurs first) and ends 25 days after the final delivery of the securities by the issuer to or through the underwriting syndicate or sole underwriter.³

¹ See MSRB's "Notice Regarding the Disclosure Obligations of Brokers, Dealers and Municipal Securities Dealers in Connection with New Issue Municipal Securities Under Rule G-32," November 19, 1998; NASD Regulation, Inc.'s "Municipal Securities Update – Disclosure to Purchasers of New Issue Securities," *Regulatory & Compliance Alert*, Vol. 12, No. 3 (Sept. 1998).

² MSRB Rule G-32(d)(i).

³ MSRB Rule G-32(d)(ii). Prior to August 25, 2005, "new issue municipal securities" were defined to be those sold during the "underwriting period." MSRB Rule G-32(d)(i). When more than one underwriter was involved, the underwriting period began with the first submission to a syndicate of an order or the purchase of the securities from the issuer, whichever occurred first, and ended when the issuer delivered the securities to the syndicate or the syndicate no longer retained an unsold balance of the securities, whichever occurred last. MSRB Rule G-32(d)(ii)(A); MSRB Rule G-11(a)(ix). When a sole underwriter was involved, the underwriting period began with

Rule G-32 does not limit the official statement delivery obligation to the underwriters of the municipal bond issue. The obligation to deliver an official statement by settlement date applies not only to underwriters, syndicate managers, syndicate members, and selling group members, but also to firms not participating in the offering that sell the municipal securities during the underwriting period.⁴

Failure to Timely Deliver Official Statements to Customers

From at least 2002 through September 2008, Edward Jones failed to timely deliver official statements for a significant portion of the new issue municipal bonds the firm sold to customers when it was not an underwriter or a member of the syndicate. From August 2002 through May 2003, the firm did not timely deliver official statements to customers who purchased municipal bonds in over 1,200 transactions. Official statements for 270 of these transactions still had not been mailed as of the end of September 2003, which was at least four months after settlement date, even though MSRB Rule G-32 required such deliveries to be made by the settlement dates of the transactions.

From February 2004 through May 2006, it is estimated that the firm engaged in approximately 100,000 new issue municipal bond transactions in which it was not an underwriter or in the syndicate and that the firm was late in mailing official statements for a significant number of these transactions. The problem of late deliveries continued into 2008. In September 2008, the firm was late in mailing official statements for over 6,200 transactions, which represented 19% of the firm's municipal bond transactions covered by MSRB Rule G-32. Of these 6,200 transactions, over 5,000 were mailed on the day prior to settlement date, and over 1,100 were mailed on settlement date.

Failure to Correct Its Systems and Procedures

The firm's systemic late deliveries had multiple causes, including lack of training for employees, incorrect instructions to employees, limited photocopying capacity, and errors by employees of the firm, including trading supervisors. As early as 2002, the firm did not have adequate procedures addressing the delivery of official statements and should have been on notice that its failure to timely obtain official statements from syndicate members resulted in deliveries being delayed for several weeks beyond settlement date. When certain managers were informed of a

the first submission to the underwriter of an order or the purchase of the securities from the issuer, whichever occurred first, and ended when both of the following two conditions were met: (1) the issuer delivered the securities to the underwriter; and (2) the underwriter no longer retained an unsold balance of the securities purchased from the issuer or 21 calendar days elapsed after the date of the first submission of an order for the securities, whichever occurred first. MSRB Rule G-32(d)(ii)(B).

⁴ MSRB G-32(a). See also MSRB's "Notice Regarding the Disclosure Obligations of Brokers, Dealers and Municipal Securities Dealers in Connection with New Issue Municipal Securities Under Rule G-32," November 19, 1998; NASD Regulation, Inc.'s "Municipal Securities Update – Disclosure to Purchasers of New Issue Securities," *Regulatory & Compliance Alert*, Vol. 12, No. 3 (Sept. 1998).

printing backlog in 2002, the firm failed to take sufficient steps to solve the problem and mail room and print shop employees responsible for making timely deliveries were not informed by management or compliance that MSRB Rules required official statements to be delivered to customers no later than settlement date. In fact, the printing backlog continued in 2003 and late deliveries continued to occur on a regular basis.

Also during 2003, mail room employees were given incorrect information regarding the timing of delivery. In the summer of 2003, a compliance officer knew that official statements were being mailed as late as 30 days after settlement date but did not inform the mail services department that deliveries were required to be made by settlement date pursuant to MSRB Rule G-32. In October 2003, the team leader for mail services (with primary responsibility for mailing official statements) wrote a memorandum expressing a goal to mail official statements within 7 or 14 days after settlement date and sent this memorandum to the compliance officer, trading desk employees, and others. No recipient noted that the 7 or 14 day mailing policy was inconsistent with the obligation under MSRB Rule G-32 to make delivery by settlement date. The compliance officer who received the memorandum memorialized the team leader's goals in an internal memorandum to file that same day.

In 2004, late deliveries and failures to deliver reoccurred but the firm did not update its procedures and employees were not given accurate instructions on the settlement delivery deadline. Delivery problems continued in 2005 and 2006. During this time period, the firm's trading desk employees failed, on some occasions, to timely request official statements from issuers, underwriters or other sources. In addition, mail room employees continued to operate with mistaken assumptions regarding the delivery requirements for official statements.

In May 2006, the firm amended its written supervisory procedures to reference MSRB Rule G-32 for the first time. The new procedures did not indicate when official statements were required to be delivered to customers, stating that "[a] final official statement will be delivered to every customer who purchases a municipal bond during the offering period."

Failure to Keep Records Required by MSRB Rule G-8(a)(xiii)

MSRB Rule G-8(a)(xiii) requires broker-dealers to keep a record of all deliveries to purchasers of new issue municipal securities and a record of all deliveries of official statements required under MSRB Rule G-32. Interpretive guidance notes that MSRB Rule G-8 requires more than the establishment of a file containing a copy of the customer's confirmation and a copy of a mailing label used to send the official statement. Rather, broker-dealers must keep a record of: the customer's name, a description of the security, the settlement date, the type of disclosure sent (i.e., a preliminary or final official statement), the date the disclosure was sent, and the name of the person(s) sending the disclosure.⁵ From at least 2002 through 2006, the firm failed to keep

⁵ MSRB's "Notice Regarding the Disclosure Obligations of Brokers, Dealers and Municipal Securities Dealers in Connection with New Issue Municipal Securities Under Rule G-32," November 19, 1998; NASD Regulation, Inc.'s "Municipal Securities Update – Disclosure to Purchasers of new Issue Securities," *Regulatory & Compliance Alert*, Vol. 12, No. 3 (Sept. 1998).

records required by MSRB Rule G-8(a)(xiii).

**Failure to Adopt, Maintain, and Enforce Adequate Written Supervisory Procedures as
Required by MSRB Rule G-27**

MSRB Rule G-27(a) requires broker-dealers to supervise the conduct of their municipal securities activities and to ensure compliance with MSRB Rules. Rule G-27(c) requires each broker-dealer to adopt, maintain and enforce written supervisory procedures reasonably designed to ensure that the conduct of municipal securities activities is in compliance with MSRB rules. The firm's written policies and procedures and internal compliance review procedures should clearly address both new issue municipal securities customer disclosures and recordkeeping relating to MSRB Rule G-32.⁶

As of April 2006, Edward Jones had no written supervisory procedures addressing the official statement delivery requirements of MSRB Rule G-32 and recordkeeping requirements of MSRB Rule G-8. The firm updated its procedures in 2006. The procedures did not reference the due date for official statement deliveries, nor did they mention any recordkeeping requirements relating to such deliveries. When the firm changed its procedures in 2007, it provided incorrect guidance in this area by stating that official statements could be delivered within the next business day of the firm's receipt of the official statement. The 2007 updates also failed to provide sufficient guidance regarding the recordkeeping requirements of MSRB Rule G-8.

In light of the foregoing, Edward Jones violated MSRB Rules G-8, G-17, G-27, and G-32.

SANCTIONS

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

A censure and a fine in the amount of \$900,000.

Edward Jones further undertakes to complete the following within 60 days of Notice of Acceptance of this AWC: (i) adopt and implement systems and procedures reasonably designed to ensure compliance with MSRB Rules G-32 and G-8, including systems and procedures to provide adequate oversight if third party vendors are utilized; and (ii) provide a certification by the Principal for Operations that the firm has adopted and implemented supervisory systems and procedures to ensure compliance with MSRB Rules G-32 and G-8.

The sanctions imposed herein shall be effective on a date set by FINRA staff. For good cause shown, and upon receipt of a timely written request from the firm, FINRA staff may extend any of the dates set forth above.

⁶ NASD Regulation, Inc.'s "Municipal Securities Update – Disclosure to Purchasers of New Issue Securities," *Regulatory & Compliance Alert*, Vol. 12, No. 3 (Sept. 1998).

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent 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 it;
- 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, Respondent specifically and voluntarily waives any right to claim bias or prejudice 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.

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

Respondent 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 it; and

C. If accepted:

1. this AWC will become part of its permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;
2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about its disciplinary record;
3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rules 8310 and 8313; and
4. Respondent 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. Respondent 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 its right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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.

Respondent 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 it 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 Respondent to submit it.

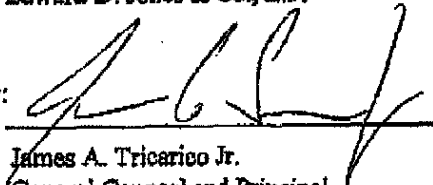
4/7/09

Date

Respondent

Edward D. Jones & Co., L.P.

By:


James A. Tricarico Jr.
General Counsel and Principal

Reviewed by:

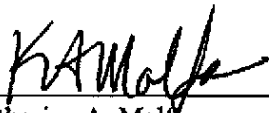


Loran Schechter
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212-692-1098

Accepted by FINRA:

4/9/09
Date

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


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