

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2007009458001**

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

RE: Janney Montgomery Scott, LLC., Respondent
FINRA Member
CRD No. 463

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Janney Montgomery Scott, LLC. ("JMS" or the "Firm") submit 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 JMS alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. JMS 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

JMS has been a regulated entity of FINRA since 1936. Independence Square Properties LLC, a wholly owned entity of The Penn Mutual Life Insurance Company, owns the Firm and is its ultimate parent company. The Firm's primary sources of revenue are commissions from its retail operation and from trading in OTC and debt securities. JMS is headquartered in Philadelphia, Pennsylvania and has approximately 97 full service investment offices located primarily on the East Coast. JMS has approximately 900 financial consultants that service over 330,000 customer accounts worldwide with over \$13 billion in assets under management.

RELEVANT DISCIPLINARY HISTORY

JMS does not have any recent relevant disciplinary history.

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OVERVIEW

As noted in routine cycle examinations of the Firm from 2003 to 2005 (the "Review Period"), the Firm failed to adequately supervise and monitor certain elements of compliance with its anti-money laundering and branch office supervision programs. Deficiencies in the Firm's branch office supervision programs related to updating order ticket forms, and reviewing instant messages, outside securities accounts, and communications with the public.

FACTS AND VIOLATIVE CONDUCT

NASD Rules 3011 and 2110 and MSRB Rule G-41 **Anti-Money Laundering Program**

During the Review Period, JMS failed to establish certain elements of an adequate anti-money laundering ("AML") program "reasonably designed to achieve and monitor the member's compliance with the requirements of the Bank Secrecy Act (31 U.S.C. 5311, *et. seq.*), and the implementing regulations promulgated by the Department of Treasury," as required by NASD Rule 3011.

1. Specifically, in 2003, JMS failed to establish policies and procedures reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) by failing to:
 - for a ten-month period, (i) provide branch office managers with reports that contained adequate information to monitor for potential money laundering and "red flag" activity; and (ii) the Firm's Compliance Department perform periodic reviews of wire transfer activity;
 - require that either branch managers or the AML compliance officers document reviews of AML alerts in accordance with the Firm's procedures;
 - identify the beneficial owners and/or agents for service of process for four of JMS' 16 foreign correspondent banks accounts; and
 - establish adequate written policies and procedures that provided guidelines for suspicious activity that would require the filing of a Suspicious Activity Report – Securities/Futures ("SAR-SF").
2. Further, JMS failed to establish policies and procedures that required ongoing AML training of appropriate personnel related to margin issues, entering new account information, verifying physical securities, and handling wire activity.
3. In 2004, JMS's Internal Audit Department report disclosed that the Firm failed to ensure that its third party vendor verified the identity of new customers by using credit and other databases cross-references. The lapse affected 5,174 accounts of the 38,582 new retail accounts that JMS opened in 2004. Specifically, due to a particular systems coding, the third party vendor failed to verify new customer information entered on every fifth day. Additionally, after the Firm determined that the vendor's lapse was resolved, the Firm failed to retroactively verify customer information that had not previously been subjected

to the verification process.

4. JMS also failed to establish procedures reasonably expected to detect and cause the reporting of suspicious transactions required under 31 U.S.C. 5318(g) in that it failed to include in its AML review the activity in retail accounts serviced by institutional account registered representatives.
5. The aforementioned conduct violated NASD Rules 3011 and 2110 and MSRB Rule G-41.

Violated NASD Rules 3010 and 2110
System of Supervision of Activities

6. During the Review Period, JMS failed to establish and maintain certain elements of its supervisory system to achieve compliance with applicable securities laws and regulations related to the activities of registered representatives, registered principals, and other associated persons.
7. JMS failed to review accounts that a producing branch office manager serviced under joint production numbers and failed to evidence in certain instances timely review of letters of authorization, correspondence, account designation changes, trade blotters, branch manager weekly review forms and branch manager monthly reviews.
8. During 2003, JMS employed 73 producing branch managers. In certain instances that year, JMS failed to follow procedures intended to prevent producing branch office managers from approving their own errors and failed to follow procedures intended to prevent a branch office operations manager from approving transactions in her own account and an assistant branch office manager from reviewing transactions in accounts he serviced.
9. In 2004, the Firm failed to establish procedures for the approval and supervision related to the employee use of personal computers and, in 2005, permitted certain employees to use personal computers that were not approved or supervised by the Firm.
10. In 2003, JMS's Annual Acknowledgement Form failed to include a question requiring the Firm's registered representatives to disclose outside securities accounts. While the Firm cannot determine how many outside securities accounts remained unreported due to the supervisory lapse, in 2003, JMS had record of 123 outside accounts for 68 employees, which increased to 148 outside accounts for 106 employees in 2004, after the Annual Acknowledgement Form was revised.

Violated NASD Rules 3010, 2210 and 2110 and Incorporated Rules 472(a) and 342.17
of the New York Stock Exchange LLC
System of Supervision of Activities

11. In certain instances, JMS failed to follow policies and procedures requiring the pre-approval and review of the content of employees' radio broadcasts, television appearances,

seminars and dinners and materials distributed at the seminars and dinners, in violation of NASD Rules 3010, 2210(b)(2) (A) and 2110, and NYSE Incorporated Rules 472(a) and 342.17 of the New York Stock Exchange LLC ("NYSE").

12. Pursuant to NYSE Rule 472(a)(1), member firms are required to pre-approve communications that are generally distributed and/or made available to its customers. NYSE Rule 342.17 requires member firms to develop written policies and procedures that are appropriate for their business, size, structure and customers in connection with the review of communications with the public relating to their business.
13. Pursuant to NASD Rule 3010, the Firm was required to enforce its policies and procedures regarding pre-approval and review of seminars, radio broadcasts, television appearances and related content.
14. NASD Rule 2210 (b)(2)(A), requires that the Firm maintain in a separate file all advertisements, sales literature and independently prepared reprints for a period of three years from the date of last use.
15. Specifically, in 2003, two registered representatives conducted seminars that were not pre-approved by the Firm's advertising principal, as required by the Firm's written procedures, and a branch office manager failed to review a registered representative's radio broadcast.
16. Also, in 2004 and 2005, the Firm had 34 seminars, radio broadcasts, television appearances and related materials submitted for supervisory approval. During that time period in connection with the review of seminars, radio broadcasts, and seminars, the Firm had supervisory failures as follows:
 - a. In 2004, a branch office manager failed to maintain a log of a registered representative's radio broadcasts and failed to tape and/or maintain a transcript of the broadcasts. Further, there is no evidence that a qualified principal reviewed or approved the registered representative's statements.
 - b. In 2005, certain branch office managers did not:
 - (i) retain documents that reflected the nature of three seminars conducted by a registered representative, the materials distributed to attendees or supervisory pre-approval of the seminars.
 - (ii) retain transcripts of a registered representative's local radio program and television appearances. Additionally, the branch office manager was unable to provide documentation evidencing supervisory review or approval of materials used in connection with the broadcasts.
 - (iii) retain documents that reflected the nature of a dinner conducted by a registered representative or the materials distributed to attendees, and.
 - (iv) retain documents that reflected the nature of a seminar conducted by two registered representatives or the materials distributed to attendees.

17. The aforementioned conduct violated NASD Rules 3010, 2210(b)(2)(A) and 2110 and Incorporated NYSE Rules 472(a) and 342.17.

NASD Rules 2860(b)(11)(A) and 2110
Options Disclosure Documents

18. From January to December 2003, the *Characteristics and Risks of Standardized Options* ("ODD") that JMS distributed to its customers was not the most current version of the ODD. JMS also lacked procedures for advising customers with respect to changes to the ODD and JMS failed to document the date on which the ODD was sent to certain customers who had recently opened options accounts. This conduct violated NASD Rules 2860(b)(11)(A) and 2110.

Violated NASD Rules 2860 (b)(18)(A)(ii) and 2110
Supervisory Review of Discretionary Options Accounts

19. With respect to the Firm's weekly review of trading in discretionary options accounts, the Firm's Compliance Registered Options Principal did not document such reviews in 2003. This conduct violated NASD Rules 2860(b)(18)(A)(ii) and 2110.

Violated Securities Exchange Act Rule 17a-3(a)(6) and NASD Rules 3110 and 2110
Order Ticket Forms

20. From May 2003 to March 2005, JMS failed to record the identity of the person who accepted each customer order because the Firm failed to update its order ticket form to reflect the identity of the person who accepted the order in violation of Securities Exchange Act Rule 17-3(a)(6) and NASD Rules 3110 and 2110.

Violated NASD Rules 3010 and 2110
Review of Emails and Instant Messages

21. From January 2004 to October 2005, JMS failed to review the Bloomberg emails and instant messages of 88 JMS employees. This conduct violated NASD Rules 3010, and 2110.

- B. JMS also consents to the imposition of the following sanctions:

Censure; and a \$175,000 fine (\$25,000 of which pertains to the violations of MSRB Rule G-41).

JMS agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. The Firm has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

JMS specifically and voluntarily waive any right to claim that it is unable to pay, now

or at any time hereafter, the monetary sanction(s) imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

JMS specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against it;
- B. To be notified of the 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, JMS specifically and voluntarily waives any right to claim bias or prejudgment 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.

JMS further specifically and voluntarily waive 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

The Firm 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 me; and
- C. If accepted:
 - 1. this AWC will become part of JMS's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Firm;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about JMS's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. JMS 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. JMS 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 JMS's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. JMS may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Firm 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.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read; that the Firm 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 the Firm to submit it.

10/27/2010
Date

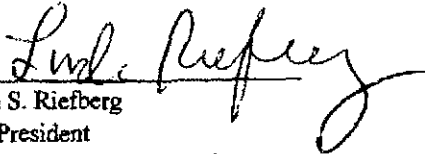

Respondent
Janney Montgomery Scott, LLC.

By: John M. Iln
SVR General Counsel

Accepted by FINRA:

11/3/10
Date

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


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