

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2007010730701**

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

RE: Raymond James Financial Services, Inc., Respondent
Member Firm
CRD No. 6694

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Raymond James Financial Services, Inc. ("Raymond James" or "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 Raymond James 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

Raymond James is based in St. Petersburg, Florida and has been a FINRA member firm since May 1974.¹ Raymond James is a subsidiary of Raymond James Financial, Inc. Raymond James is an independent contractor firm that introduces its business to Raymond James & Associates, Inc. Raymond James employs approximately 4,778 registered personnel and 2,396 associated personnel.

RELEVANT DISCIPLINARY HISTORY

Raymond James has had the following disciplinary history in the last five years:

¹ The firm was originally registered as Investment Management & Research, Inc. On January 12, 1999, Investment Management & Research, Inc. merged with Robert Thomas Securities, Inc., another independent contractor subsidiary of Raymond James Financial, Inc., to become Raymond James.

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1. On February 5, 2008, Raymond James was fined \$25,000 by the State of Georgia for registration deficiencies with respect to certain registered representatives' conducting business in Georgia while not properly licensed.
2. On April 5, 2007, Raymond James was fined \$12,000 by FINRA for failing to record on its books and records a private securities transaction engaged in by a registered representative of the firm.
3. On October 16, 2006, Raymond James was fined \$100,000 by the Division of Securities-Utah Department of Commerce. The allegations against Raymond James were failure to supervise, inadequate supervisory system, and failure to maintain books and records of the firm.
4. On September 15, 2005, Initial Decision No. 296 was issued in SEC Administrative Proceeding File No. 3-11692. The Administrative Law Judge found that Raymond James failed to adequately supervise a branch office manager. Raymond James failed to verify monthly compliance reports submitted by the branch manager, failed to prepare the auditor to conduct an effective audit, and failed to effectively utilize its exception reports. Raymond James was required to pay a civil penalty of \$6,900,000.
5. On April 26, 2005, Raymond James entered into a Letter of Acceptance, Waiver and Consent with FINRA regarding Respondent's supervision of the sale of fee-based products. Raymond James agreed to a sanction of a \$750,000 fine, plus \$138,000 in restitution, as well as a censure.

OVERVIEW

From August 2005 through October 2007, Raymond James violated Municipal Securities Rulemaking Board ("MSRB") Rule G-27 by failing to enforce written supervisory procedures to achieve compliance with suitability requirements as they relate to the sale of Internal Revenue Code Section 529 college savings plans ("529 plans"). In addition, at various times from August 2005 through October 2007, Raymond James violated MSRB Rules G-2, G-3 and G-27 by allowing eight individuals to function as municipal securities principals at the firm while failing to have them registered and/or qualified in such capacities.

FACTS AND VIOLATIVE CONDUCT

1. College Savings Plans

College savings plans, known as 529 plans, are tax-advantaged investment programs designed to help finance education expenses. The name is derived from the section of the Internal Revenue Code governing the plans. Each of the 50 states (as well as the District of Columbia) currently has at least one type of 529 plan. Some states offer the plans directly, others offer the plans through broker-dealers, and some states offer the plans both directly and through a broker-dealer. All 529 plans offer the same federal tax advantages, including tax deferral on earnings. However, each state offers different income tax benefits for their 529 plans. In particular,

approximately half the states offer a tax deduction based on investments by residents in the state's own 529 plan. Investors who purchase plans sponsored by states other than their state of residence, however, do not receive that benefit. In addition, each plan has different costs and expenses.

2. *Raymond James failed to enforce its written supervisory procedures*

529 plans are considered municipal securities. Therefore, sales of 529 plans are regulated pursuant to the rules of the MSRB. In May 2002, the MSRB issued guidance relating to the sale of 529 plans. The MSRB stated in that notice that:

Rule G-17 [MSRB's fair dealing rule] requires a dealer to disclose that, depending upon the laws of the customer's home state, favorable state tax treatment for investing in a Section 529 college savings plan may be limited to investments made in a Section 529 college savings plan offered by the customer's home state.

Although the MSRB is responsible for the creation of rules governing the offer and sale of municipal securities, FINRA is charged with enforcing the MSRB's rules with respect to broker-dealers that offer and sell municipal securities.²

MSRB Rule G-27 provides, in pertinent part:

- (a) Each broker, dealer and municipal securities dealer ("dealer") shall supervise the conduct of the municipal securities activities of the dealer and its associated persons to ensure compliance with [MSRB] rules and the applicable provisions of the [Securities Exchange Act of 1934] and rules thereunder ("applicable rules").

* * *

- (c) Each dealer shall adopt, maintain and enforce written supervisory procedures reasonably designed to ensure that the conduct of the municipal securities activities of the dealer and its associated persons are in compliance as required in section (a) of this rule.

From August 2005 through October 2007, Raymond James' written supervisory procedures required its registered representatives, including producing branch managers to submit, at the time of a client purchase of a 529 Plan, a Form #1529 (529 Plan Account Client Disclosure Form) as well as the 529 plan application, to an appropriately licensed principal to ensure, among other things, that all 529 plans offered outside of a client's state of residence were

² See 15 U.S.C. §§ 78o-3(b)(7) and 78s(g)(1) (2004).

suitable in light of state tax laws, fund performance, commissions and plan fees³ Registered representative client trades were approved by a branch manager if the branch manager held a Series 51, 53, 8 or 9/10 which permit approval of municipal securities transactions. After approval by the branch manager, a copy was sent to the Compliance Department for tracking purposes. When the branch manager did not hold an appropriate license or when the purchase was by a branch manager's own clients, the firm's written supervisory procedures required the Form #1529 and 529 plan application to be transmitted by the Compliance Department to the firm's Sales Management and Supervision Department for suitability review. The firm's Compliance Department relied on the branch to forward the Forms #1529 to it for tracking. As detailed below, in a significant number of instances, documentary evidence of the supervision of 529 plan sales was missing. In these instances, it appears that the branches were not forwarding the forms and applications to Compliance as required by firm policy. Additionally, for eight branch managers without an appropriate municipal principal license there was no evidence that the 529 transactions were reviewed by Sales Management and Supervision.

From August 2005 through October 2007, Raymond James effected approximately 45,066 529 plan transactions, totaling approximately \$26 million, involving approximately 4,042 customers who resided in Colorado, Illinois, New Mexico, South Carolina and West Virginia.

Staff's investigation revealed that of the 45,066 total transactions, 1,359 involved new 529 plan investments, while the overwhelming majority of the total transactions involved subsequent contributions to already existing 529 plan investments. The 1,359 new 529 plan investments amounted to approximately \$7 million in investments and generated approximately \$121,580 in revenues to the firm.

As mandated by the firm's written supervisory procedures, all 1,359 new 529 plan investments required the registered representatives to submit, at the time of purchase of a 529 Plan, a Form #1529 to their branch manager for suitability reviews and to the Compliance Department for tracking. Branch Managers had to submit a Form #1529 to the Compliance Department, which in turn forwarded the document to a registered municipal principal in Sales Management and Supervision for suitability review. However, staff's investigation revealed a significant number of deficiencies with respect to the firm's implementation of its written supervisory procedures pertaining to the accurate and timely completion of Forms #1529. The noted deficiencies are as follows:

- For 135 transactions, Forms #1529 were not obtained;
- For 641 transactions, Forms #1529 were not obtained at the time of purchase as required by the firm's procedures, but rather only obtained after the staff inquired why they had not been obtained;

³ The Form #1529 is a single page disclosure form to have clients and registered representatives acknowledge the differences between in-state and out-of-state 529 plans.

- For 135 transactions, the Forms #1529 incorrectly stated that an in-state tax deduction was not available when, in fact, an in-state tax deduction was available; and
- For 252 transactions, Forms #1529 reflect that branch managers had signed off on their own client transactions and there was no evidence these transactions were reviewed by an appropriately licensed principal in the Sales and Supervision Department.

By failing to enforce their own written supervisory procedures that had been designed to achieve compliance with suitability obligations pertaining to the sale of 529 plans, Raymond James violated Municipal Securities Rulemaking Board ("MSRB") Rule G-27.

3. Registration Deficiencies

MSRB Rule G-2, entitled "Standards of Professional Qualification," essentially provides that no broker or dealer shall effect any transaction in any municipal security unless such broker or dealer, and every natural person associated with such entity, is qualified in accordance with the rules of the MSRB.

MSRB Rule G-3 entitled "Classification of Principals" provides in pertinent part that no municipal securities principal shall be qualified for purposes of Rule G-2 unless such person meets the requirements of Rule G-3. G-3 requires, among other things, that anyone intending to become a municipal principal must first pass the municipal principal's examination.

According to MSRB rules and the firm's written supervisory procedures, all municipal securities business must be supervised by a Municipal Securities Principal (Series 51, 53, 8 or 9/10). Raymond James' written supervisory procedures further provide that "Branch Managers . . . qualified as Series 24 General Securities Principals will need to obtain the Series 51, Series 53, or Series 9/10 to supervise 529 plan business conducted in the branch office."

Staff's investigation revealed that at various times from August 2005 through October 2007, eight Raymond James branch managers functioned as municipal securities principals, reviewing and approving 48 529 plan transactions, while failing to be registered and/or qualified in an appropriate municipal securities principal capacity. As a result of such conduct, Raymond James violated MSRB Rules G-2, G-3 and G-27.

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

Respondent Raymond James is censured and fined \$150,000.

Respondent agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fines imposed.

Respondent specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against them;
- 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, Respondent 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.

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

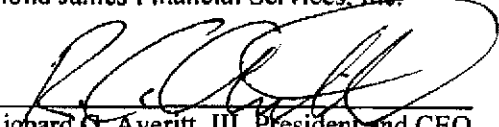
Respondent understands that:

- 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 Respondent; and
- C. If accepted:
1. This AWC will become part of Respondent's permanent disciplinary records and may be considered in any future actions brought by FINRA or any other regulator against them;
 2. This AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondent's disciplinary records;
 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 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 Respondent's rights 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 understand that they 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 Raymond James, certifies that he is duly authorized to act on Raymond James' behalf, has read and understands all of the provisions of this AWC, and has been given a full opportunity to ask questions about it; that Raymond James 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 Raymond James to submit it.

Raymond James Financial Services, Inc.

By: 
Richard G. Averitt, III, President and CEO


Date

Accepted by FINRA:

6/1/10
Date

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

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