

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20070111653-01**

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

RE: Sterne, Agee & Leach, Inc., Respondent
Broker-Dealer
CRD No. 791

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Sterne, Agee & Leach, Inc. (the "Firm") 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 the Firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The Firm 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

The Firm has been a member of FINRA and its predecessor, NASD, since 1936.

SUMMARY

In Matter No. 20070111653, the Short Sale Staff of the Department of Market Regulation (the "Staff") conducted a review of the Firm's compliance with Rule 203(b)(3) of Regulation SHO for the third quarter of 2007. The Staff also reviewed the Firm's supervisory procedures regarding Regulation SHO. In Matter No. 20080159458, the Staff conducted a review of the Firm's compliance with Rule 203(b)(3) for the third quarter of 2008.

FACTS AND VIOLATIVE CONDUCT

Regulation SHO Rule 203(b)

Matter No. 20070111653

1. During the third quarter of 2007, the Firm had a fail-to-deliver position at a registered clearing agency in two threshold securities for 13 consecutive settlement days and failed to immediately thereafter close out the fail-to-deliver position by purchasing securities of like kind and quantity. Such fail-to-deliver positions had aged between 19 and 90 days.
2. The conduct described in paragraph one constitutes separate and distinct violations of Rule 203(b)(3) of Regulation SHO.
3. Additionally, while the Firm had a fail-to-deliver position at a registered clearing agency in one of the threshold securities referenced above for 13 consecutive settlement days without closing out the fail-to-deliver position by purchasing securities of like kind and quantity, it failed to borrow the security or enter into a bona fide arrangement to borrow the security prior to executing four short sales in that threshold security. The conduct described in this paragraph constitutes separate and distinct violations of Rule 203(b)(3)(iii) of Regulation SHO.¹

Matter No. 20080159458

4. During the third quarter of 2008, the Firm had a fail-to-deliver position at a registered clearing agency in four threshold securities for 13 consecutive settlement days and failed to immediately thereafter close out the fail-to-deliver position by purchasing securities of like kind and quantity. Such fail-to-deliver positions had aged between 17 and 29 days.
5. The conduct described in paragraph four constitutes separate and distinct violations of Rule 203(b)(3) of Regulation SHO.
6. Additionally, while the Firm had fail-to-deliver positions at a registered clearing agency for 13 consecutive settlement days without closing out the fail-to-deliver position by purchasing securities of like kind and quantity, the Firm effected a total of 22 short sales in the four threshold securities referenced above and failed to borrow the securities or enter into bona fide arrangements to borrow the securities prior to executing its proprietary short sales. The conduct described in this paragraph constitutes separate and distinct violations of Rule 203(b)(3)(iv) of Regulation SHO.

¹ Effective October 15, 2007, Rule 203(b)(3)(iii) was re-designated as Rule 203(b)(3)(iv).

Supervision

7. During the review periods for Matter Nos. 20070111653 and 20080159458, the Firm failed to implement a reasonable supervisory system to achieve compliance with respect to Rule 203(b) of Regulation SHO. The conduct described in this paragraph constitutes violations of NASD Rules 2110 and 3010.
8. During the review periods for Matter Nos. 20070111653 and 20080159458, the Firm failed to establish and maintain adequate procedures of supervision and control, including a separate system of follow-up and review, reasonably designed to ensure compliance with Rule 203(b)(3)(iii), later re-designated as Rule 203(b)(3)(iv), of Regulation SHO. The conduct described in this paragraph constitutes a separate and distinct violation of NASD Rules 2110 and 3010.

B. The Firm also consents to the imposition of the following sanctions:

A censure and a total fine of \$50,000 (consisting of \$40,000 for the Regulation SHO violations and \$10,000 for the combined supervision violations).

The Firm 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.

The Firm 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

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

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

The Firm 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

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 the Firm; and
- C. If accepted:
 - 1. this AWC will become part of the Firm’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 the Firm’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. The Firm 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. The Firm 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 the Firm's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. The Firm 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 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 the AWC's 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.

June 12, 2012
Date

Respondent

Sterne, Agee & Leach, Inc.,

By: 

Name: PATRICK S. DOGAN

Title: CCO

Reviewed by:



Counsel for Respondent

Accepted by FINRA:

8/14/12
Date

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

Thomas R. Gira
Thomas R. Gira
Executive Vice President
Department of Market Regulation