

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20080122439-01**

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

RE: Canaccord Genuity Inc. (f/k/a Canaccord Adams, Inc.)
(RD No. 1020), Respondent

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Canaccord Genuity Inc. ("Respondent," "Canaccord," or 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 Respondent alleging violations based on the same factual findings described herein.

1.

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

Canaccord has been a member of FINRA since 1946. Its principal place of business is located in Boston, Massachusetts. Canaccord engages in underwriting, research, and institutional sales to clients in the US and Canada. The Firm is approved to do business in all 50 states and the District of Columbia. It currently has approximately 164 registered representatives operating out of 11 branch offices in the US and Canada.

RELEVANT DISCIPLINARY HISTORY

The Respondent does not have any relevant disciplinary history with the Securities Exchange Commission, FINRA, any state regulator or any other self-regulatory organization.

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OVERVIEW

During the review period of January 2007 through July 2009, a portion of Canaccord's business involved acting as a placement agent for Private Investments in Public Equity ("PIPE") transactions. This matter arose from a review of Canaccord's supervisory systems and procedures concerning the internal flow of information (information barriers procedures) as it related to the firm's PIPE business. During the review period, Canaccord failed to have reasonable information barriers procedures. Additionally, the firm failed to have a reasonable system in place for the review of its email correspondence and communications on its internal chat room system. Accordingly, Canaccord violated NASD Rules 3010 and 2110 and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

1. NASD Rule 3010 requires, *inter alia*, that member firms establish, maintain and enforce reasonable systems and procedures to supervise the types of business in which it engages. During the review period, Canaccord was an active participant in the U.S. PIPE market, yet failed to have in place reasonable information barriers procedures with respect to the firm's PIPE business. More specifically:
 - a. The firm failed to have a reasonable system in place to track employees who were brought "over the wall" on specific PIPE transactions.¹ While the firm had a procedure in place requiring the maintenance of a "wall crossing log" during the review period, it did not maintain such a log. Instead, the firm stored information about "over the wall" employees in a computer file that was not readily accessible to persons in Compliance with responsibilities to, for example, monitor trading and review emails of employees brought over the wall on investment banking matters.
 - b. The firm failed to maintain a specific log of employee transactions in securities on the firm's grey list and/or restricted list.² Further, during the same time period, the Firm was unable to provide documentation evidencing that it had investigated employee trading in grey list securities to determine whether employees had misused material, non-public information.

¹ Where the scope or form of an information request from a firm's investment banking department to employees in another department, such as research or sales, might result in "flopping" material, non-public information to employees, firm's may find it necessary to bring a research or sales employee "over the wall" before making such a request, essentially making them temporary members of the firm's investment banking department for the purpose of a particular deal or transaction.

² The term "grey list" is often used interchangeably with the term "watch list" and refers to list of securities whose trading is subject to close scrutiny by firm compliance and/or legal departments. A "restricted list" is generally a list of securities in which proprietary, employee and certain solicited customer transactions are restricted or prohibited.

- c. The firm failed to have a reasonable system in place to monitor the flow of information concerning PIPE transactions to potential investors. Specifically, while the firm's procedures required sales persons to obtain verbal agreements from potential investors to keep information concerning PIPE transactions confidential and refrain from trading on such information, the firm did not reasonably ensure that the procedure was followed or document that such verbal agreements were obtained. Moreover, the information that was maintained concerning the disclosure of information on PIPE transactions was not used for supervisory or compliance purposes.
2. In addition to the deficiencies in the firm's information barriers procedures, the firm's system for review of email correspondence was unreasonable. While the firm's procedures required the review of a sample of email communications, the sample included mail boxes for users no longer employed at the firm and permitted Compliance Department employees, at their discretion to mark emails as reviewed based solely on a review of the sender's name, recipient's name, and subject line of an email. Stated differently, the firm permitted "bulk review" of emails without any written guidelines informing Compliance staff of the parameters for such review.
3. During the review period, the firm also utilized an internal chat room system that allowed members of the firm's business units, including but not limited to, the investment banking and research departments to communicate and/or review each others communications. The firm did not have any written procedures in place relevant to monitoring internal communications between the firm's business units on the internal chat room system and could not document that it actively monitored such communications.

By reason of the foregoing, Canaccord violated NASD Rules 3010 and 2110 and FINRA Rule 2010.

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

- A censure; and
- \$40,000 fine.

Respondent agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. Respondent has submitted an Election of Payment form showing the method by which the firm proposes to pay the fine imposed.

Respondent specifically and voluntarily waives 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

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 Respondent;
- 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 record and may be considered in any future actions brought by FINRA or any other regulator against Respondent;
2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondent'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. 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 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.

The undersigned, on behalf of the Respondent, 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 Respondent 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 Respondent to submit it.

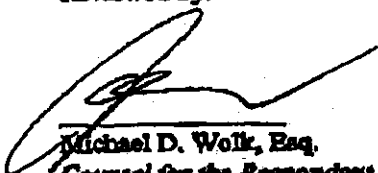
Dec. 29, 2010
Date

J. Eric Anderson
Respondent, Concord Genuity, Inc.

Title: Chief Compliance Officer

Print Name: J. Eric Anderson

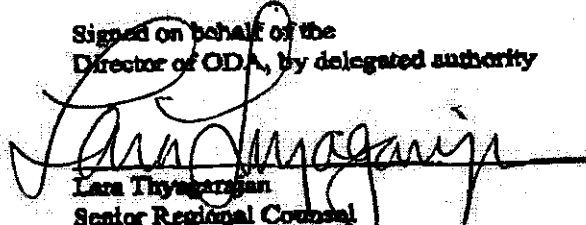
Reviewed by:


Michael D. Wolf, Esq.
Counsel for the Respondent
Bingham McCutchen LLP
2020 K Street, NW
Washington, DC 20006-1806

Accepted by FINRA:

January 24, 2011
Date

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



Lara Thyagarajan
Senior Regional Counsel
FINRA Department of Enforcement
One Liberty Plaza
New York, NY 10006
Phone: 212-858-4176

STATEMENT OF CORRECTIVE ACTION

This Corrective Action Statement is submitted by the Respondent. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.

Canaccord Genuity Inc. ("Canaccord" or "the firm") is a research-driven institutional broker/dealer serving the trading, research and investment banking needs of its money manager and corporate clients. In January 2006, the former Adams Harkness, Inc. was acquired by Canaccord Capital Inc and renamed Canaccord Adams Inc. In May 2010 the firm was renamed Canaccord Genuity Inc. following an acquisition of Genuity Capital Markets by its parent, Canaccord Financial Inc.

While the Letter of Acceptance, Waiver and Consent ("AWC") did not make findings of any breaches of the Firm's information barrier procedures and policies, the AWC did make findings regarding the adequacy, enforcement and documentation of these and other procedures. Highlighted below are enhancements to the Firm's procedures and policies which address FINRA's concerns.

Information Barrier Procedures Related to PIPES

Department Managers and employees have been re-educated, and practices and procedures for all Wall Crossing tracking platforms have been enhanced, in order to document in a more timely, efficient and accurate manner. Specifically in regards to the Wall Crossing Log, procedures have been updated to require a real time separate standing log, and an individual in the Compliance Dept. has been assigned the responsibility to immediately update the log as any changes occur. In addition, procedures regarding information barrier reviews have been enhanced to document the trading and e-mail reviews taking place.

Regarding employee trading, procedures have been enhanced to require an escalated review by a senior member of the Compliance Dept. for any employee trading for securities on the Grey List. This escalation is documented and a separate log of employee Grey List trading and trade approvals is maintained. In accordance with Canaccord's long standing policy, employees are not allowed to trade in securities on the Restricted List.

Regarding the flow of information concerning PIPE transactions to potential investors, procedures are being enhanced to require the Compliance Dept. to review the Equity Capital Markets investor log to independently verify that the e-mail confirming the clients' verbal representations of confidentiality have been sent. In addition, the Head of Sales is required to monitor Sales personnel brought over the wall to ensure that information barrier procedures, including the verbal statement for PIPES, are being

properly implemented. The Head of Sales certifies quarterly that the procedure is being properly followed.

Review of E-mail Correspondence

Unrelated to the examination, in February 2008 Canaccord upgraded its e-mail review and archival platform to a system which is much more efficient to administer. This has alleviated the problem of "stale" mailboxes and other anomalies resident in the former platform. In addition, procedures have been enhanced to more clearly delineate parameters for review, including permissible "bulk" review.

Internal Chat Room System

The internal chat room system was designed and implemented in order to allow the Sales, Trading and Research departments to communicate on a real-time basis with one another to provide immediate and timely information for servicing institutional clients. Procedures have been enhanced to document review of the internal chat room by both supervisory personnel (through a quarterly supervisory certification) and by the Compliance Department. Specific written supervisory procedures have been created delineating the review process.

In conclusion, the firm takes its responsibilities as a broker/dealer quite seriously. We have proactively addressed the issues raised in these matters through upgrades in technology, education and personnel. Canaccord continues to seek additional methods to serve our customers, maintain fair and orderly markets and meet our regulatory obligations.

January 3, 2011