

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20080132211-01**

RECEIVED
2009 SEP 29 A 7 21
REGISTRATION & DISCLOSURE

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

RE: Canaccord Adams Inc., Respondent
Broker-Dealer
CRD No. 1020

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Canaccord Adams Inc. (the "firm"), submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violation 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 since April 3, 1946, and its registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

The firm has the following relevant disciplinary history:

- On February 20, 2007, an AWC was accepted in which the firm was censured and fined \$85,000, \$5,000 of which was for violations of SEC Rule 10b-10.

SUMMARY

This matter is the result of the Department of Market Regulation's 2008 Trading and Market Making Surveillance Examination of the firm. The on-site portion of the examination took place on June 3-6, 2008. Attached as Exhibit 1 is a list of the items the staff reviewed during the on-site examination for trade dates April 14-15, 2008 (the "review period").

FACTS AND VIOLATIVE CONDUCT

1. The firm failed on 49 occasions to provide written notification disclosing to its customer its correct capacity in the transaction; and on 11 occasions when it acted as principal for its own account, failed to provide written notification disclosing to its customer that it was a market maker in each such security. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 10b-10.
2. During the review period, the firm, on 23 occasions, accepted a short sale order in an equity security from another person, or effected a short sale in an equity security for its own account, without (1) borrowing the security, or entering into a bona-fide arrangement to borrow the security; or (2) having reasonable grounds to believe that the security could be borrowed so that it could be delivered on the date delivery is due; and (3) documenting compliance with SEC Rule 203(b)(1) of Regulation SHO. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 203(b)(1) of Regulation SHO.

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

A censure and fine of \$12,500 (consisting of \$5,000 for SEC Rule 10b-10 violations and \$7,500 for SEC Rule 203(b) 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. It 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 sanction imposed in this matter.

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.

Sept. 3, 2009
Date

Respondent
Canaccord Adams Inc.

By: J. Eric Anderson

Name: J. ERIC ANDERSON

Title: CHIEF COMPLIANCE OFFICER

Reviewed by:

[Signature]
Counsel for Respondent

Accepted by FINRA:

9/25/09
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

Exhibit No.1

The staff reviewed the following samples during TMMS examination 20080132211.

<u>Sample Size</u>	<u>Review Area</u>	<u>Sample Source</u>
81	Customer and proprietary sell orders, reviewed for compliance with SEC Rule 200(g) long/short sale recording requirements.	From trade dates April 14 and 15, 2008
67	Customer and proprietary short sales, reviewed for compliance with SEC Rule 203(b) security location requirements.	From trade dates April 14 and 15, 2008
546	Customer and proprietary sales reported to a TRF or OCTRF, for compliance with NASD Rules 6130, 4632 and 6620 sale indicator reporting requirements.	From trade dates April 14 and 15, 2008
92	Customer and proprietary sell orders entered into the Nasdaq Exchange execution systems, for compliance with Nasdaq Rule 4755 long/short sale indicator entry requirements.	From trade dates April 14 and 15, 2008
21	Cancellations of trades reported to a TRF or OCTRF, for compliance with NASD Rules 4632(g), 6420(f), 6620(f) and 6130(f) trade report cancellation requirements.	From trade dates April 14 and 15, 2008
47	Limit and market orders executed as principal, for compliance with the order protection and best execution requirements of NASD Rule 2110, IM-2110-2, 2111, 6541 and 2320, and Nasdaq Rules 2110, IM-2110-2, 2111 and 2320.	From trade dates April 14 and 15, 2008
10	Market orders with "not held" terms or from institutional customers, for compliance with NASD Rule 2320 and Nasdaq Rule 2320 best execution requirements.	From trade dates April 14 and 15, 2008
1,457	Principal and riskless principal trade executions effected otherwise than on an exchange for limit or market orders, for compliance with NASD Rules 4632, 6420, 6620 and 6130 requirements for TRF and OCTRF reporting.	From trade dates April 14 and 15, 2008
24	Orders for NMS stocks in which the firm acts as a market center, for compliance with SEC Rule 605 order classification requirements.	From trade dates April 14 and 15, 2008
4 (25 orders)	Datasets published for the monthly order execution report, for compliance with SEC Rule 605 requirement to publish accurate data.	Firm's monthly order execution report from February 2008

<u>Sample Size</u>	<u>Review Area</u>	<u>Sample Source</u>
N/A	Quarterly order routing report, for compliance with SEC Rule 606 requirements.	Report published for the period January through March 2008
6	Customer orders in OTC equity securities, for compliance with NASD Rules 2320(g) and 3110(b) requirements to ascertain and document the best interdealer market for transactions in such securities.	From trade dates April 14 and 15, 2008
47	Orders in securities required to be submitted to OATS, for compliance with NASD Rules 6954 and 6955, and Nasdaq Rules 6954 and 6955 requirements to submit OATS information.	From trade dates April 14 and 15, 2008
238	Order/Trade records prepared and maintained in connection with the above samples, for general compliance with requirements of NASD Rule 3110 and SEC Rules 17a-3 and 17a-4.	From trade dates April 14 and 15, 2008, and various trade dates in February 2008
1,611	Trades reported to a TRF, OTCRF or ADF/TRACS in connection with the above samples, for general compliance with requirements of NASD Trade Reporting and ADF rules.	From trade dates April 14 and 15, 2008
114	Customer confirmations prepared and maintained in connection with the above samples, for compliance with SEC Rule 10b-10 disclosure requirements.	From trade dates April 14 and 15, 2008
9	CRD registration records for persons conducting and/or supervising the member's trading and market making activities, for compliance with NASD Rule Series 1020, 1030 and 1040, and Nasdaq Rule Series 1020, 1030 and 1040.	List of trading personnel for April 2008
All, as provided by the member	The member's supervisory system, written supervisory procedures ("WSPs") and documents evidencing the implementation of the WSPs, for compliance with NASD Rule 3010 requirements to establish and implement a system that is reasonably designed to prevent and detect violations of applicable securities rules.	WSPs provide by the member as those in effect during April 2008, and documentation of supervisory reviews conducted for April 2008
N/A	The member's "Regular & Rigorous" review procedures for assessing the execution quality of orders sent to other trading centers and/or internalized, for compliance with NASD Rules 2320 and 3010.	Procedures provided by the member as those in effect during April 2008

Corrective Action Statement
September 3, 2009

Letter of Acceptance, Waiver and Consent
STAR No. 20080132211

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 Adams Inc. ("the firm") was found by FINRA to have violated SEC Rule 10b-10 by failing to provide written notification to its customers disclosing: (i) the firm's correct capacity in the transaction; and (ii) when it acted as principal for its own account, that it was a market maker in the applicable security. It is the policy of the firm to make such required disclosure.

At the time of the transactions reviewed by FINRA staff in the exam, the firm utilized Fidessa Royal Blue ("Fidessa") as its order management system and Sungard Phase 3 ("Phase 3") as its back-office clearing and settlement system. In a typical transaction for the firm, the firm's sales trader receives an order from an institutional customer and immediately enters the trade into Fidessa, where the executions are captured and the orders are booked to the institution. Then, the firm's Operations Department receives customer allocation information pertaining to the customer's subaccounts, as applicable, either directly from the sales trader, the customer, or through an automated system, OASYS. If the firm receives allocation information through the OASYS system, the execution capacity is pre-programmed into the system to read as an agent or principal capacity. If the firm receives allocation information manually – from the sales trader or from the client via email or phone call – the Operations Department personnel will enter the data manually into Phase 3. The manual nature of these procedures led to the FINRA findings.

This process has now been automated with the firm's conversion to a fully disclosed correspondent clearing relationship through Pershing commencing on June 24, 2009. Fidessa feeds execution data directly to Pershing. This has largely automated the process and greatly diminished the need for manual entries. An exception function now identifies those situations requiring manual intervention.

The firm frequently registers as a market maker in equity securities. At the time of the transactions reviewed by FINRA staff in the exam, the Trading Department was responsible for notifying the Operations Department when registering as a market maker. The Operations Department then entered this information into the Phase 3 back-office system, which would drive the proper market maker disclosure on the client

confirmation. Since the firm utilized two separate and distinct platforms, it was a manual process to reconcile this information. In conjunction with its change to a fully disclosed correspondent, the firm has automated this process. Pershing automatically receives the firm's market making status from Fidessa, which is then disclosed on the applicable customer confirmation.

Canaccord Adams Inc. strives to ensure the accuracy of its confirmations to customers pursuant to Rule 10b-10. The firm will continue its monthly forensic review of customer confirmations to ensure accuracy.

In addition, FINRA found the firm to have violated SEC Rule 203(b)(1) of Regulation SHO. The firm executed multiple buy and sell (long and short) transactions over the course of the day while intending to act as a market maker. However, the firm was not registered as a market maker in the security at the time the short sale transactions occurred, and therefore locate information was not sought nor results documented on the short sale transactions.

It is the policy of the firm to register as a market maker prior to entering quotes and acting in a market making capacity. After this incident was discovered by FINRA staff, the firm's Compliance Department reminded the firm's traders of the requirement of registering as a market maker prior to entering quotes and acting in a market making capacity. The firm will continue training its traders on this and other trading issues. The firm continues to monitor closely short sale exception reports.