

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010022049801**

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

RE: Merrill Lynch, Pierce, Fenner & Smith Incorporated, Respondent
Broker-Dealer
CRD No. 7691

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Merrill Lynch, Pierce, Fenner & Smith Incorporated, CRD No. 82097691 ("Merrill Lynch") 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 Merrill Lynch alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A.** Merrill Lynch 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

Merrill Lynch is a full service brokerage firm headquartered in New York, New York and provides equity research, sales and trading services as well as underwriting services. Merrill Lynch maintains approximately 2,400 branch offices and employs approximately 35,000 registered individuals. Merrill Lynch has been a FINRA member firm since 1937. Merrill Lynch is registered with the Municipal Securities Rulemaking Board ("MSRB"). In January 2009, Merrill Lynch's parent company, Merrill Lynch & Co., Incorporated was acquired by Bank of America Corporation through merger with a wholly-owned subsidiary of Bank of America.

Banc of America Securities, LLC ("BAS"), CRD No. 26091 ("BAS") was a full-service broker-dealer with its principal office located in New York, New York. It was registered with the Municipal Securities Rulemaking Board ("MSRB").

Effective November 1, 2010, BAS was consolidated into Merrill Lynch, whereupon BAS terminated its registration with FINRA.

RELEVANT DISCIPLINARY HISTORY

In connection with FINRA Matter No. 20090203563, dated September 2012, without admitting or denying them, Merrill Lynch consented to findings that Merrill Lynch violated NASD Rule 3010, NASD Rule 2110 and FINRA Rule 2010, among other securities rules, based upon findings, among others, that, from 2007 to 2011, it failed to file or timely file more than 650 required reports, including customer complaints and customer settlements; failed to acknowledge and/or timely acknowledge to customers the receipt of nearly 300 customer complaints; failed to adequately train and supervise personnel responsible for customer complaint tracking and reporting; and did not have systems in place to identify the high volume of customer complaints that were not being acknowledged or reported as required. Merrill Lynch consented to a censure and a fine of \$500,000.

OVERVIEW

Between January 2006 and December 2010 (the "Relevant Period"), Merrill Lynch and BAS (collectively, the "Firms") violated fair dealing and supervisory rules of the MSRB by obtaining reimbursement for the voluntary payments that they made to the California Public Securities Association ("Cal PSA"), on behalf of themselves and other members of the underwriting syndicates, from the proceeds of municipal and state bond offerings.

During the Relevant Period, the Firms made payments to Cal PSA and requested that those payments be reimbursed as underwriting expenses from the proceeds of particular negotiated municipal and state bond offerings. This practice was unfair. Cal PSA's activities did not bear a direct relationship to those bond offerings, and were not expenses of conducting each underwriting. In addition, the Firms' requests for reimbursement were not fair because they were not accompanied by adequate disclosure to issuers about the nature of the fees. As discussed below, Cal PSA engaged in a variety of political activity.

Furthermore, the Firms failed to have adequate systems and written supervisory procedures reasonably designed to monitor the reimbursement process relating to expenses for municipal securities associations, including Cal PSA. In particular, the Firms' written supervisory procedures did not contain any policies requiring supervisors to review and approve the Firms' requests for reimbursement of those expenses to ensure that those requests were fair and adequate. In addition, the Firms failed to have adequate systems and written supervisory procedures reasonably designed to monitor how the municipal securities associations used the

funds that the Firms paid. The need for adequate policies and procedures in this area was heightened in light of Cal PSA's engagement in a variety of political activities.

By virtue of the above conduct, the Firms violated MSRB Rules G-17 and G-27.

FACTS AND VIOLATIVE CONDUCT

a) Factual Background

Merrill Lynch and BAS were members of certain municipal securities associations, including Cal PSA, throughout the Relevant Period. During the Relevant Period, most of Cal PSA's members were underwriters of bond issuances. There is no statutory or regulatory requirement that a firm join Cal PSA in order to underwrite a bond offering.

Cal PSA requested that its members make payments entitled "underwriting assessments." As a general practice, from on or about January 1, 2006 until on or about May 1, 2010, Cal PSA requested that its members pay underwriting assessments in the amount of \$0.01 per bond, when they participated in bond issuances in California of more than \$2 million in issue size and with more than two years to maturity. For example, if Merrill Lynch or BAS participated in a bond issuance in the amount of \$100 million, with a maturity date of more than two years, Cal PSA requested an underwriting assessment in the amount of \$1,000. After on or about May 1, 2010, Cal PSA requested underwriting assessments in the amount of \$0.02 per bond, when members participated in transactions of the same type. During the Relevant Period, Cal PSA capped its assessments at \$25,000 per bond issuance.

During the Relevant Period, Cal PSA's express mission was to keep its members informed of legislative and regulatory developments affecting the municipal securities industry and to provide a forum through which the municipal securities industry could review and respond to these developments. Cal PSA attempted to serve as the focal point for the public finance industry's relationship with California's legislature. In furtherance of its mission, Cal PSA controlled two political action committees, provided input into the drafting of legislation, and retained a political lobbyist that provided legislative advocacy or lobbying services for companies seeking to influence California state government.

Cal PSA billed its members on the per-bond basis described above, regardless of whether there was any direct relationship between that bond issuance and the association's activities, and regardless of whether the association provided any services required for the underwriting.

The Firms received invoices from Cal PSA for underwriting assessments when they participated in the underwriting of approximately 252 applicable transactions. In connection with those invoices, the Firms paid Cal PSA a total of \$387,455.62 during the Relevant Period.

b) Merrill Lynch and BAS Violated MSRB G-17 By Unfairly Requesting and Receiving Reimbursements for Cal PSA Underwriting Assessments

MSRB Rule G-17 requires each municipal securities dealer and municipal advisor to deal fairly with all persons and not engage in any unfair practice.

Merrill Lynch's and BAS's practice of obtaining reimbursement for the voluntary payments to Cal PSA from the proceeds of municipal and state bond offerings, as described above, was unfair.

First, these assessments did not bear a direct relationship to any activities conducted with respect to each bond offering. For example, Cal PSA's political activity was not necessary to perform any particular underwriting. In addition, the Firms were not required by any statute or regulation to be a member of Cal PSA in order to underwrite bond offerings. Yet the Firms treated their Cal PSA underwriting assessments as an expense of each transaction, and requested and received reimbursement of those payments from the proceeds of each bond offering.

Second, the Firms, on behalf of themselves and the other members of the underwriting syndicate, listed the voluntary Cal PSA underwriting assessments as expenses of the underwriting, with other costs such as travel, printing and telephone costs. However, unlike these categories of expense payments, the underwriting assessments did not directly correspond with work performed or costs incurred to underwrite each bond offering, and were not necessary to conduct the offering. As a result, the Firms' requests for reimbursement were not fair because they were not accompanied by adequate disclosure to issuers about the nature of the fees.

Third, the Firms' above-described practices resulted in the expenditure of the proceeds of municipal and state bond offerings to an organization that engaged in political activities, including hiring a lobbyist to monitor political developments and advocating, from time to time, for various legislative action.

To date, in response to a request from the Treasurer of the State of California, the Firms have returned \$100,255.58 to multiple issuers, as a refund for the Cal PSA underwriting assessments that were reimbursed from offering proceeds.

c) Merrill Lynch and BAS Violated MSRB Rule G-27 by Failing to Adopt, Maintain and Enforce Written Supervisory Procedures Reasonably Designed to Ensure Compliance with MSRB Rule G-17

MSRB Rule G-27 requires each broker, dealer and municipal securities dealer to "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" with MSRB rules, and to "amend its written supervisory procedures as appropriate within a reasonable time after changes in [MSRB] or other applicable rules."

During the Relevant Period, Merrill Lynch and BAS failed to adopt, maintain, and enforce written supervisory procedures reasonably designed to ensure compliance with Rule G-17 as it relates to the conduct described above. Specifically, the Firms failed to establish reasonable procedures for reviewing and disclosing expenses for Cal PSA and other municipal securities associations for which it requested reimbursement from the proceeds of municipal and state offerings, and for ensuring that those requests were fair and adequate.

In addition, the Firms failed to adopt, maintain, and enforce adequate systems and written supervisory procedures reasonably designed to monitor how the municipal securities associations to which they belonged used the funds that the Firms provided to them. Adequate policies and procedures in this area were especially necessary in light of Cal PSA's engagement in political activities.

B. Merrill Lynch also consents to the imposition of the following sanctions:

- (1) A censure and;
- (2) A monetary fine in the amount of \$787,000 to be assessed against Merrill Lynch;
- (3) An order of restitution in the total amount of \$287,200.04, and to submit satisfactory proof of payment of restitution or of reasonable documented efforts to effect restitution to the issuers located in California to which Merrill Lynch has not yet provided restitution. Such proof shall be submitted to Gina M. Petrocelli, One World Financial Center, 200 Liberty Street, New York, New York 10281 either by letter that identifies "Merrill Lynch, Pierce, Fenner & Smith Incorporated, Disciplinary No. 2010022049801" and includes a copy of the check, money order or other method of payment or by e-mail, with pdf copies of the payment documentation, to EnforcementNotice@FINRA.org. This proof shall be provided to the FINRA staff member listed above no later

than 120 days after acceptance of the Offer. If for any reason Respondent cannot locate any such issuer after reasonable and documented efforts within 120 days from the date the Offer is accepted, or such additional period agreed to by a FINRA staff member in writing, Respondent shall forward any undistributed restitution to the appropriate escheat, unclaimed property or abandoned property fund for the State of California. Respondent shall provide satisfactory proof of such action to the FINRA staff member identified above and in the manner described above, within 14 days of forwarding the undistributed restitution to the appropriate state authority.

- (4) Within 180 calendar days of the issuance of this AWC, an officer (or equivalent) of Merrill Lynch will certify to FINRA in writing that it has (a) completed a review of its written supervisory procedures and systems concerning the areas described above in Section I.A.c; and (b) implemented necessary revisions to such procedures and systems in order to ensure that the procedures and systems are in compliance with MSRB Rule G-27. The certification shall describe the specific actions taken by the Firm, including the systems and written procedures developed and implemented.

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 we propose to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim that Merrill Lynch 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

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

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

Merrill Lynch 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

Merrill Lynch 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 Merrill Lynch; and

C. If accepted:

- 1. this AWC will become part of Merrill Lynch's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;**
- 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Merrill Lynch'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. Merrill Lynch 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. Merrill Lynch 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 Merrill Lynch's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.**

D. Merrill Lynch understands that it may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Merrill Lynch 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 Merrill Lynch, certifies that a person duly authorized to act on its behalf has read and understand all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Merrill Lynch 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 Merrill Lynch to submit it.

12/21/2012
Date (mm/dd/yyyy)

Merrill Lynch, Pierce, Fenner & Smith Incorporated
Merrill Lynch, Pierce, Fenner & Smith Incorporated

Reviewed by:

Hugh C. Patton
Counsel for Respondent
Hugh C. Patton

By: J. Daniel Montague
Associate General Counsel

Accepted by FINRA:

12/27/12
Date

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

Susan Light
Susan Light, Senior Vice President & Chief Counsel
FINRA Department of Enforcement
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200 Liberty Street, 11th Floor
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