

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2011026883101**

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

RE: Advisors Asset Management, Inc., Respondent
CRD No. 46727

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Advisors Asset Management, Inc. (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 Respondent 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 AND RELEVANT DISCIPLINARY HISTORY

Respondent has been a FINRA member since July 1999. The firm is based in Monument, Colorado and has sixteen regional branches and approximately two hundred and thirty registered representatives. Respondent engages in a wide variety of fixed income business including corporate debt, mortgage backed securities, government securities, investment advisory activities, municipal bonds, private placements, and proprietary trading.

In 2004, Respondent entered into an AWC pursuant to which it was censured and fined \$80,000 for municipal and corporate bond reporting violations. In 2008, Respondent entered into an AWC to address violations of MSRB Rules G-30 and G-27. The firm was censured and fined \$15,000.

OVERVIEW

In March 2008, Respondent added a second clearing firm. Following that addition, Respondent experienced multiple municipal trade reporting issues resulting in widespread violations of MSRB Rules G-14, G-15 and G-8. Respondent discovered the municipal reporting issues in 2009 and soon thereafter

began working with its clearing firms to rectify the same. Said issues were ultimately resolved during the period of October 15, 2010 through March 31, 2011.

FINRA staff reviewed Respondent's MSRB Rule G-14 and G-15 procedures and found them, for the period of March 2008 through October 2010, to be deficient, in violation of MSRB Rule G-27.

Additionally, FINRA staff's review of Respondent's corporate bond trade reporting covering the period of June 2010 through August 2010 found violations of FINRA Rules 6730 and 2010.

FACTS AND VIOLATIVE CONDUCT

MSRB Rules G-14, G-15 and G-8 Violations

For the period of March 2008 through October 2010, FINRA staff, utilizing two sample periods, conducted a review of Respondent's municipal transactions. The first sample period consisted of a total of 60 municipal customer transactions from September 2008, May 2009 and September 2009. That review disclosed the following:

- 26 transactions were inaccurately reported as principal trades rather than agency trades;
- 47 erroneous transaction reports between FISA and FISB. For the majority of these transactions, there were typically two inter-dealer reports between FISA or FISB;
- 16 transactions where there was an erroneous, offsetting firm role (B/S) customer trade report;
- 1 transaction where there was an erroneous, duplicative customer trade report;
- 31 transactions where the confirmation had an inaccurate capacity disclosed; and,
- 26 transactions where the transaction was inaccurately classified as a principal transaction on the firm's internal order memorandum.

The transaction reporting errors described in bullet points 1-4 constitute violations of MSRB Rule G-14, the inaccurate capacity disclosures described in bullet point 5 violated MSRB Rule G-15, and the inaccurate transaction classifications described in bullet point 6 constituted violations of MSRB Rule G-8.

The second sample period entailed a review of Respondent's municipal transactions during the period of July 2010 through September 2010, which totaled approximately 20,924. That review disclosed the following:

- 1,227 customer and 1,109 inter-dealer transactions reported with an inaccurate capacity;
- 5,305 erroneous inter-dealer transactions reported between FISA and FISB;
- 253 transactions where there was erroneous, off-setting firm role (B/S) customer trade report;
- 2,488 confirmations that had an inaccurate capacity disclosed; and,
- 2,335 transactions with an inaccurate capacity on the firm's internal order memorandum blotter.

The transaction reporting errors described in bullet points 1-3 constitute violations of MSRB Rule G-14; the inaccurate capacity disclosures in bullet point 4 violated MSRB Rule G-15; and, the inaccurate capacity information on the firm's internal order memorandum described in bullet point 5 constituted violations of MSRB Rule G-8.

With respect to the above-identified MSRB G-14 violations, Respondent corrected the issue of inter-dealer transactions being reported with inaccurate capacity on November 23, 2010; the FISA/FISB issue on October 15, 2010; and, the erroneous offsetting firm role (B/S) customer trade reports on October 15, 2010. The system problem related to the MSRB G-15 violations, *i.e.*, inaccurate confirmations, was corrected on November 23, 2010. Lastly, the system problem related to the MSRB G-8 violations, the inaccurate transactions on the transaction and memorandum blotter, was corrected on March 31, 2011.

The conduct described above constitutes separate and distinct violations of MSRB Rules G-14, G-15 and G-8 by Respondent.

MSRB Rule G-27 Violations

During the period of March 11, 2008 through October 2010, Respondent did not have written supervisory procedures that were reasonably designed to achieve compliance with MSRB Rules G-14 (Reports of Sales and Purchases) and G-15(a) (Customer Confirmations). Respondent's G-14 procedures relied upon MSRB "not affirmed" emails to ensure compliance with MSRB Rule G-14. The "not affirmed" emails, however, would not have detected the above-identified MSRB Rule G-14 violations. Similarly, Respondent's MSRB G-15 procedures were inadequate in that they did not call for a review of the firm's DVP/RVP confirmations.

The conduct described above constitutes separate and distinct violations of MSRB Rule G-27.

FINRA Rules 6730 and 2010 Violations

FINRA staff conducted a review of Respondent's corporate bond trade reporting covering the period of June 2010 through August 2010. In total, 60 trades were reviewed. That review disclosed the following:

- 2 transactions reported where the execution time was inaccurately reported in a non-military format;
- 4 transactions where the transaction was reported with an inaccurate execution time;
- 12 transactions that were reported inaccurately with the P1 modifier;
- 1 erroneous inter-dealer trade reported that never actually occurred; and,
- 2 transactions where there was an extra reverse transaction reported.

The conduct described above constitutes separate and distinct violations of FINRA Rules 6730 and 2010.

B. Respondent also consents to the imposition of the below sanctions.

- A censure; and
- A fine of \$65,000 (\$57,500 of which pertains to the violations of MSRB Rules G-8, G-14, G-15 and G-27).

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is 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 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 it;
- 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 it;
- 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 it;
 - 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; and,

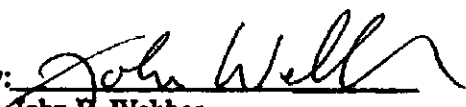
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that Respondent may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This 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 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 Respondent to submit it.

ADVISORS ASSET MANAGEMENT,
INC.

12/24/2012
Date (mm/dd/yyyy)

By:


John H. Webber
SVP/Chief Compliance Officer

Reviewed by:


Scott R. Anderson, Esq.
Chapman and Cutler LLP
111 West Monroe Street
Chicago, IL 60603-4080
(312) 845-3000

Accepted by FINRA:

1/7/13
Date

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



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