

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20120316576-01**

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

RE: Stifel, Nicolaus & Company, Incorporated, Respondent
Broker/Dealer
CRD No. 793

Pursuant to FINRA Rule 9216 of FINRA Code of Procedure, Stifel, Nicolaus & Company, Incorporated ("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 since October 13, 1936, and its registration remains in effect. The firm has no relevant disciplinary history.

SUMMARY

In Review No. 20120316576, the staff of FINRA's Department of Market Regulation ("the staff") conducted a Trading and Market Making Surveillance Examination ("TMMS Examination") regarding the firm, which included a review of the items set forth on Exhibit 1, for the trade dates July 11-12, 2012 ("the review period").

FACTS AND VIOLATIVE CONDUCT

1. During the review period, the firm failed to report to the FINRA/Nasdaq Trade Reporting Facility ("TRF") the correct symbol indicating the capacity in which the firm executed 11 transactions in Reportable

Securities. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7230A.

2. During the review period, the firm: (a) on three occasions, when it acted as principal for its own account, failed to provide written notification disclosing to its customer the correct reported trade price in the transaction; (b) on two occasions failed to provide written notification disclosing to its customer its correct capacity in the transaction; (c) on eight occasions incorrectly included an average price disclosure in the transaction; and (d) on 18 occasions inaccurately disclosed the commission or commission equivalent in the transaction. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 10b-10.
3. During the review period, the firm on six 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 Rule 203(b)(1) of Regulation SHO. The conduct described in this paragraph constitutes separate and distinct violations of Rule 203(b)(1) of Regulation SHO.
4. For the month of May 2012, the firm made available a report on the covered orders in national market system securities that it received for execution from any person. This report failed to include information regarding two orders that the firm should have reported for the May 2012 review period. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 605 of Regulation NMS.
5. During the review period, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the Rules of FINRA. At a minimum, written supervisory procedures should describe the following:
 - (a) identification of the person(s) responsible for supervision with respect to the applicable rules;
 - (b) a statement of the supervisory step(s) to be taken by the identified person(s);
 - (c) a statement as to how often such person(s) should take such step(s); and
 - (d) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented.

The firm's written supervisory procedures failed to provide for the above-cited minimum requirements for adequate written supervisory procedures, in the following subject areas: (i) supervisory systems, procedures and qualifications; (ii) order handling; (iii) short sale transactions; (iv) trade reporting; (v) soft dollars accounts and trading; (vi) OATS reporting; (vii) algorithmic trading; (viii) multiple MPIDS; and (ix) maintaining books and records relating to electronic communications between trading desks. The conduct described in this paragraph constitutes violations of NASD Rule 3010 and FINRA Rule 2010.

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

A censure;

A fine of \$32,500 (\$5,000 for the trade report input violations; \$5,000 for the customer confirmation violations; \$5,000 for the Locate Rule violations; \$10,000 for the order execution information violations; and \$7,500 for the supervision violations); and

An undertaking to revise the firm's written supervisory procedures with respect to the areas described above in paragraph I.A.5. Within 30 business days of acceptance of this AWC by the National Adjudicatory Council ("NAC"), a registered principal of the Respondent shall submit to the **COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850**, a signed, dated letter, or an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in paragraph I.A.5.; and (3) the date the revised procedures were implemented.

The firm agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are 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 the firm 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 Formal Complaint issued specifying the allegations against the firm;
- B. To be notified of the Formal 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 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 prejudice 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, 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;

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;
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: (i) testimonial obligations or (ii) 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 understood all of the provisions to 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.

9/26/14
Date

Stifel, Nicolaus & Company, Incorporated

By:

Name: Joseph C. Rosa

Title: Deputy General Counsel

Reviewed by:

[Signature]
Counsel for Respondent

Accepted by FINRA:

October 21, 2014
Date

[Signature]
James J. Nixon

Chief Litigation Counsel

Department of Market Regulation

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

Exhibit No. 1

2012 Market Regulation Examination Samples Stifel, Nicolaus Company, Inc. Exam No. 20120316576 Sample Source/Period*: July 11 and 12, 2012

<u>Sample Size</u>	<u>Sample Description</u>
91	Sales reviewed for compliance with SEC Rule 200(g) long/short sale recording requirements
9	Short Sales reviewed for compliance with SEC Rule 203(b) security location requirements
0	Sales reviewed for compliance with SEC Rule 204 fail-to-deliver requirements
69	Sell trades reported to a TRF or OTCRF for compliance with sale indicator requirements, FINRA Rules 6182 or 6624
20	Sell orders entered into Nasdaq Exchange execution system for compliance with Nasdaq Rule 4755(a)(1)(A) long/short reporting requirements
20	Buy and Sell orders entered into Nasdaq Exchange execution system for compliance with Nasdaq Rule 4611 capacity reporting requirements
0	Sell orders entered into Nasdaq OMX BX execution system for compliance with Nasdaq OMX BX Rule 4755 long/short reporting requirements
0	Sell orders entered into Nasdaq OMX PHLX execution system for compliance with Nasdaq OMX PSX Rule 3305 long/short reporting requirements
23	Sell orders entered into DirectEdge Exchange execution systems for compliance with EDGA/EDGX Rule 11.15 long/short reporting requirements
23	Buy and Sell orders entered into DirectEdge Exchange execution systems for compliance with EDGA/EDGX Rule 11.22 capacity reporting requirements
N/A	Sell orders entered into NYSE-Arca execution system for compliance with NYSE-Arca Equities Rule 7.16 long/short reporting requirements
N/A	Buy and Sell orders entered into NYSE-Arca execution system for compliance with NYSE Arca Equities Rule 7.33 capacity reporting requirements
0	Limit orders for NMS securities in which the member acts as an exchange market maker for compliance with the display requirements of SEC Rules 602 and 604
74	Orders for compliance with best execution requirements of FINRA Rule 5310: 50 Orders from the Order Protection Review 0 Order executed with a .PRP (Prior Reference Price) trade modifier 24 Customer orders in OTC equity securities
50	Orders for compliance with order protection requirements of FINRA Rule 5320
10	Open Limit orders to buy and/or open Stop orders to sell securities that traded ex-dividend for compliance with FINRA Rule 5330
171	Non-tape reports to a TRF or OTCRF for compliance with the Related Market Center Indicator requirements of FINRA Rules 7230A and 7330
N/A	Order memoranda and Net Trading agreements for compliance with FINRA Rule 2124 requirements
50	Orders in securities required to be submitted to OATS for compliance with FINRA Rules 7440 and 7450 requirements
36	Customer confirmations prepared and maintained in connection with select samples for compliance with SEC Rule 10b-10

2012 Market Regulation Examination Samples
 Stifel, Nicolaus Company, Inc.
 Exam No. 20120316576
 Sample Source/Period*: July 11 and 12, 2012

<u>Sample Size</u>	<u>Sample Description</u>
25	Orders for NMS securities in which the Firm acts as a market center for compliance with SEC Rule 605 order classification requirements
7	Data sets published for [Month Year] monthly order execution report for compliance with SEC Rule 605 requirement to publish accurate data (a 'data set' encompasses all required statistical data for single security and order type/size category as described in SEC Rule 605)
3rd Qtr 2012	Quarterly Routing Report for compliance with SEC Rule 606 requirements
12	CRD registration records for persons conducting and/or supervising Firm's trading and/or market making activities for compliance with NASD Rule Series 1020-1040; Nasdaq Rule Series 1020-1040, Nasdaq OMX BX Rule Series 1020-1040; Nasdaq OMX PHLX Rule Series 600-604; EDGA/EDGX Rules 2.3, 2.5 and 11.4 and NYSE-Arca Rules 2.4, 6.18 and 7.21
24	Customer orders in OTC equity securities for compliance with FINRA Rule 5310, Supplementary Material .06: Securities with Limited Quotation or Pricing Information
1	Disclosures to customers relating to trading in the Extended Hours session for compliance with FINRA Rule 2265
483	Records prepared and maintained in connection with the above samples for compliance with SEC Rules 17a-3 and 17a-4
283	Trades reported to a TRF or OTCRF for compliance with FINRA Rules 6380A and 7230A or 6622 and 7330
N/A	Member's "Regular & Rigorous" review procedures regarding order execution quality for compliance with FINRA Rule 5310 and NASD Rule 3010
All Provided	Member's supervisory and operational policies and procedures and documentation evidencing execution of the policies and procedures for compliance with SEC Regulation NMS Rule 611
All Provided	Member's supervisory system, written supervisory procedures ("WSPs") and documentation evidencing execution of the WSPs for compliance with NASD Rule 3010, Nasdaq Rule 3010, Nasdaq OMX BX Rule 3010, Nasdaq OMX PHLX Rule 748, EDGA Rule 5.1, EDGX Rule 5.1 or NYSE-Arca Rule 6.18 requirements
All Provided	Member's risk management and supervisory system/procedures and documentation evidencing execution of the policies and procedures for compliance with SEC Rule 15c3-5 requirements
N/A	Trading Halts declared during the on-site portion of the examination for which FINRA Staff observed the operation of the ATS.
N/A	Trades reported to the ADF/TRACS for compliance with FINRA Rule 6282
N/A	ADF orders and quotes accessed by other market participants for compliance with FINRA Rule 6250 requirements to submit Order and Order Response reports