

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT**

NO. 20120318070-01

TO: Department of Market Regulation
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, Respondent Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLCO" 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 Respondents alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. MLCO 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

MLCO is a Delaware corporation with its principal executive offices in New York City. It has been a registered broker-dealer with the Securities and Exchange Commission ("SEC") since 1959 and FINRA since 1937. MLCO has no relevant disciplinary history.

SUMMARY

This matter involves a referral from FINRA's Department of Market Regulation Short Interest Team for MLCO's failure to report short interest positions and inaccurate reporting of short interest positions during the period between September 15, 2010 and June 29, 2012.

FACTS AND VIOLATIVE CONDUCT

1. For settlement dates between September 15, 2010 and February 29, 2012, MLCO failed to report 4,200 short interest positions totaling 22,850,177 shares, and on June 29, 2012, failed to report one position totaling 4,800 shares. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 4560.

2. For settlement dates between September 15, 2010 and February 29, 2012, MLCO under-reported its short interest positions. Specifically, the firm inaccurately reported 7,065 short interest positions totaling 3,535,247,474 shares, when it should have reported 7,065 positions totaling 3,561,396,771 shares. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 4560.
3. During the period between September 15, 2010 and June 29, 2012, MLCO's supervisory system did not provide for supervision reasonably designed to achieve compliance with FINRA Rule 4560. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 3010 and FINRA Rule 2010.

OTHER FACTORS

In determining to resolve this matter in the manner set forth herein, and in determining the appropriate monetary sanction,¹ Market Regulation took into consideration that MCLO self-reported the violations at issue after conducting an internal investigation, and promptly took action to correct the violative activity.

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

A censure and a fine totaling \$115,000 (consisting of a fine of \$90,000 for its violation of FINRA Rule 4560 and a fine of \$25,000 for its violations of NASD Rule 3010 and FINRA Rule 2010).

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. It has submitted an Election of Payment form showing the method by which it 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 the firm;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in

¹ See Principal Consideration 12 of the FINRA Sanction Guidelines and Notice to Members 08-70.

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 Chief Legal Officer, 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 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 accordance with FINRA Rule 8313;
 - 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 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. Respondent 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 the firm's 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 the firm 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 firm to submit it.

1/23/2015
Date

Merrill Lynch, Pierce, Fenner & Smith, Inc.

By: [Signature]

Name: JOSEPH GUARDINO

Title: MANAGING DIRECTOR

Reviewed by:

Attorney Name
Counsel for Respondent
Firm Name
Address
City/State/Zip
Phone Number

Accepted by FINRA:

2/11/15
Date

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

[Signature]
David Rosenstein, Senior Vice President
Legal Section
FINRA Department of Market Regulation