

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2013038534401**

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

RE: William Blair & Company LLC
CRD No. 1252

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, William Blair & Company LLC ("William Blair," "Respondent" 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 William Blair alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. William Blair 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

William Blair has been a member of FINRA since 1944. The Firm, headquartered in Chicago, Illinois, conducts a general securities business. The Firm has approximately 891 registered representatives operating from approximately 15 branch offices. It publishes approximately 6,000 research reports each year covering approximately 600 companies.

RELEVANT DISCIPLINARY HISTORY

The Firm has no relevant disciplinary history.

OVERVIEW

From January 1, 2010 through September 25, 2013 (the "relevant period"), William Blair violated several disclosure provisions of FINRA's research analyst conflict of interest rule, NASD Rule 2711. Among other things, Rule 2711 fosters transparency in research reports by requiring member firms to clearly and prominently provide investors with important information regarding the firms' conflicts of interest.

The Firm violated Rule 2711 by

- Failing to present required disclosures in a clear, comprehensive and prominent manner (Rule 2711(h)(10));
- Omitting from certain research reports required disclosures concerning conflicts of interest relating to financial relationships with the subject company (Rule 2711(h)(2));
- On two occasions, failing to define in its research reports the meaning of certain research ratings (Rule 2711(h)(4));
- In certain instances, failing to direct readers in a clear manner to where applicable disclosures could be found in certain compendium research reports (reports that covered six or more companies) (Rule 2711(h)(11));
- On two occasions, publishing research reports within 10 calendar days following a secondary offering for which it acted as manager (Rule 2711(f)); and
- Failing to adequately implement written supervisory procedures reasonably designed to ensure compliance with the requirements of Rule 2711 (Rule 2711(i)).

FACTS AND VIOLATIVE CONDUCT

NASD Rule 2711 is intended, in part, to provide transparency to investors with respect to conflicts of interest that could impact the objectivity and reliability of research reports. Investment banking relationships between the member and the subject company are among the most concerning conflicts for which the rule requires disclosure.

1. William Blair Failed to Disclose Required Information in a Clear, Comprehensive and Prominent Manner

Rule 2711(h)(10) provides that research disclosures required by Rule 2711 “must be clear, comprehensive and prominent.” In Notice to Members 04-18, FINRA provided interpretative guidance concerning the clarity of research disclosures, including that member firms may not use conditional or indefinite language in required disclosures, such as “may have a position” in any of the subject company’s securities. Conditional or indefinite language lacks the specificity required under Rule 2711(h). The required disclosures with respect to past receipt and expectation of investment banking services related compensation must be made separately, if applicable. Additionally, research reports may not include disclaimers that contradict or are inconsistent with required disclosures.

Notice to Members 04-18 also provides guidance regarding the prominence of research disclosures, including that “[r]eferences on the front page of a research report to where disclosures are located must be separated from the report body’s text, and in larger font size than the body text,” and disclosures that are not required must be clearly separated from required disclosures and labeled accordingly.

During the relevant period, William Blair failed in several respects to make clear, comprehensive and prominent disclosures as required by Rule 2711(h)(10). For example, the Firm is required to disclose if it received compensation for investment banking services from the subject company

in the past 12 months, if it expects to receive or intends to seek compensation for investment banking services from the subject company in the next 3 months, and if the subject company is, or was during the preceding 12 months, a client of the Firm and the types of services provided, as required by Rule 2711(h)(2)(A)(ii)(b), (ii)(c), and (iii)(b), respectively.

Instead, the Firm used the following indefinite or conditional statement in certain research reports: "William Blair & Company, LLC receives or seeks to receive compensation for investment banking services from [the subject company]." This indefinite or conditional language, which appeared in most of the 17,046 research reports published during the relevant period, lacked the specificity required under Rule 2711(h)(2)(A) in violation of that rule, and was not "clear, comprehensive and prominent" in violation of Rule 2711(h)(10).

Additionally, the Firm is required to disclose under Rule 2711(h)(8) if it was making a market in the subject company's securities at the time of the research report's publication. The Firm, however, in addition to the disclosure required by Rule 2711(h)(8), included the following conditional statement in certain research reports: "William Blair & Company, L.L.C. or its affiliates may buy and sell the securities referred herein, may make a market therein, and may have a long or short position therein." This conditional statement, which appeared in 379 research reports published in January 2010 (the first month of the relevant period), was not "clear, comprehensive and prominent," as required by Rule 2711(h)(10).

Finally, William Blair's disclosures were not sufficiently prominent. For example, the Firm's research reports did not clearly identify the disclosures required by Rule 2711. William Blair also commingled required disclosures with other disclosures and disclaimers not required by Rule 2711. These deficiencies were present in most of the 17,046 research reports published by the Firm during the relevant period.

Based on the foregoing, William Blair violated NASD Rules 2711(h)(10), 2711(h)(2)(A)(ii)(b), (ii)(c) and (iii)(b) and FINRA Rule 2010.

2. William Blair Omitted from Four of its Research Reports Required Information Concerning Conflicts of Interest

The Firm omitted from four of its research reports disclosures required by Rule 2711(h)(2)(A)(ii)(a), which requires a member to disclose if the member "managed or co-managed a public offering of securities for the subject company in the past 12 months." The Firm issued a research report on June 15, 2011 that did not disclose it had acted as a co-manager of a public offering of the subject company's common stock on May 5, 2011. In another instance, the Firm issued research reports on December 20, 2010 and January 12, 2011 that did not disclose it acted as a co-manager of a public offering of the subject company's common stock on December 10, 2010. In another instance, the Firm issued a research report on May 4, 2012 that did not disclose it acted as co-manager of a public offering of the subject company's common stock on April 19, 2012.

Based on the foregoing, William Blair violated NASD Rule 2711(h)(2)(A)(ii)(a) and FINRA Rule 2010.

3. *William Blair Failed to Adequately Define Research Ratings in Two of its Research Reports*

Rule 2711(h)(4) requires members to define in research reports the meaning of each rating used by the member in its rating system. The definition of each rating must be consistent with its plain meaning. In two instances, the Firm did not comply with this requirement during the relevant period.

In one instance, the Firm issued a research report on May 9, 2012, rating the subject company "outperform." The Firm included a price target-to-ratings chart on the second to last page of this research report, which stated the current rating is "restricted."

No definition or explanation was provided as to what the term "restricted" meant in connection with the "outperform" rating. The Firm issued another research report on June 12, 2012 for the same subject company, again rating the company "outperform" and including a price target-to-ratings chart stating that the current rating is restricted without further defining or explaining what the term restricted means.

Based on the foregoing, William Blair violated NASD Rule 2711(h)(4) and FINRA Rule 2010.

4. *William Blair Failed to Direct Readers in a Clear Manner to Applicable Disclosures in Certain Compendium Research Reports*

Rule 2711(h)(11) requires member firms publishing compendium reports (covering six or more companies) to direct readers in a clear manner to where applicable disclosures can be found. The Firm failed to comply with this requirement in 207 research reports published during the relevant period.

For example, on January 21, 2011, the Firm issued a research report covering seven companies, including one for which it had conducted a public offering. In another instance, on January 10, 2011, the Firm issued a compendium research report on the employment sector discussing a company for which the Firm had recently completed an offering of shares. The Firm also issued a compendium research report on July 20, 2010 providing ratings for multiple companies, including one for which it served as underwriter in an initial public offering on May 28, 2010. In all three of these instances, the Firm did not disclose its relevant relationship to the companies covered in the compendium research reports and did not direct readers in a clear manner to where applicable disclosures could be found.

Based on the foregoing, William Blair violated NASD Rule 2711(h)(11) and FINRA Rule 2010.

5. *William Blair Improperly Published Two Research Reports During the Quiet Period After a Secondary Offering*

Rule 2711(f)(1)(B) provides that no member may publish or otherwise distribute a research report ... for which the member acted as manager or co-manager of ... a secondary offering, for 10 calendar days following the date of the offering ... The Firm violated this requirement on two occasions during the relevant period.

First, the Firm violated this requirement by publishing a research report four days after it acted as a manager of a secondary offering of common stock. The offering took place on December 10, 2010. On December 14, 2010, the Firm issued a research report titled “2011 Top Stock Ideas” that identified the subject company as one of 21 top stock recommendations.

Second, the Firm published a research report seven days after it acted as a manager of a secondary offering of common stock. The offering took place on June 21, 2010. On June 28, 2010, the Firm published a research report in the form of an email that included the subject company as a “best pick” following news that the Supreme Court upheld the “Patient Protection and Affordable Care Act.”

Based on the foregoing, William Blair violated NASD Rule 2711(f)(1)(B) and FINRA Rule 2010.

6. William Blair Failed to Adequately Implement Written Supervisory Procedures Reasonably Designed to Ensure its Compliance with Research Disclosure Rules

Finally, Rule 2711(i) requires member firms to implement written supervisory procedures reasonably designed to ensure that members comply with the provisions of Rule 2711. During the relevant period, the Firm failed to adequately implement its written supervisory procedures to ensure that it affirmatively made required disclosures and that required disclosures were sufficiently clear, comprehensive and prominent.

The Firm also failed to adequately implement its written supervisory procedures concerning the definition of research ratings, disclosures in compendium research reports and publication of research during quiet periods.

Based on the foregoing, William Blair violated Rule 2711(i) and FINRA Rule 2010.

B. William Blair also consents to the imposition of the following sanctions:

1. Censure; and
2. Fine in the amount of \$350,000.

William Blair further consents to undertake the following:

Review of Policies and Procedures: William Blair shall undertake a thorough review of its policies and procedures concerning compliance with Rule 2711, including but not limited to reviewing a meaningful sample of its research reports. Within 60 days of Notice of Acceptance of this AWC, the Chief Compliance Officer of the Firm shall describe in a written statement the methodology used by the Firm to review its research and certify in writing to FINRA’s Department of Enforcement that the Firm has adopted and implemented policies and procedures, including written procedures, reasonably designed to ensure compliance with the provisions of NASD Rule 2711 that are addressed in this AWC. For good cause shown and upon receipt of a timely application, FINRA staff may extend the

review and certification deadline set forth above.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

William Blair 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.

William Blair 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.

I.

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 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 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 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 Respondent'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. Respondent 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 the Firm 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.

7-15-2015
Date (mm/dd/yyyy)

William Blair & Company, LLC
Respondent
William Blair & Company LLC

By: [Signature]
Kenneth L. Wagner
Chief Compliance Officer

Reviewed by:

[Signature]
Timothy P. Burke
Counsel for Respondent
Morgan, Lewis & Bockius LLP
One Federal Street
Boston, MA 02110
Phone: 617-951-8620

Accepted by FINRA:

8/17/15
Date

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

[Signature]
James E. Day
Vice President & Chief Counsel
FINRA Department of Enforcement
15200 Omega Drive, Third Floor
Rockville, MD 20850
Phone: 301-258-8520; Fax: 202-720-8303