

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2015046823201**

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

RE: Advisors Clearing Network Inc., Respondent
CRD No. 37466

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Advisors Clearing Network Inc. ("Advisors" 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 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

Advisors, a registered broker-dealer with its principal place of business in Pasadena, California, has been a member of FINRA since December 1995. The Firm is a wholly-owned subsidiary of Vertical Management Systems, Inc. ("VMS"), a software developer and data-processing service provider for financial institutions transacting in mutual funds, and provides execution and settlement services for mutual fund transactions to company-sponsored 401(k) retirement plans ("Retirement Plan Customers").

RELEVANT DISCIPLINARY HISTORY

The Firm has no relevant disciplinary history.

OVERVIEW

Between January 2014 and December 2014 (the "Relevant Period"), Advisors failed to deliver quarterly account statements to each of the Firm's forty-eight (48) Retirement Plan Customers, in violation of NASD Rule 2340 and FINRA Rule 2010.

In addition, prior to March 2015, the Firm failed to establish and maintain an adequate

supervisory system, including written supervisory procedures, for the delivery of quarterly account statements, in violation of NASD Rule 3010 (a) and (b) (for violations occurring prior to December 1, 2014), FINRA Rule 3110 (a) and (b) (for violations occurring on or after December 1, 2014) and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

1. The Firm's Failure to Provide Quarterly Account Statements

NASD Rule 2340(a) requires member firms to, "with a frequency of not less than once every calendar quarter, send a statement of account ... containing a description of any securities positions, money balances, or account activity to each customer whose account had a security position, money balance, or account activity during the period since the last such statement was sent to the customer."

FINRA Rule 2010 requires that, "[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade." A violation of NASD Rule 2340 is also a violation of FINRA Rule 2010.

In January 2014, the Firm began converting its in-house production of account statements to SMB, an outside vendor. As a result of technology and data transmission issues encountered between the Firm's recordkeeping affiliate and SMB, the Firm failed to create and deliver account statements to its Retirement Plan Customers in the first, second and third quarter of 2014. During the Relevant Period, the Firm never obtained the written consent of its Retirement Plan Customers to suspend delivery of account statements, and never advised the Retirement Plan Customers that the quarterly account statements had not and would not be delivered while it resolved the technical difficulties it experienced.

By failing to deliver quarterly account statements to its Retirement Plan Customers during the Relevant Period, the Firm violated NASD Rule 2340 and FINRA Rule 2010.

2. The Firm's Supervisory Failures

NASD Rule 3010(a) and FINRA Rule 3110(a) require FINRA member firms to "establish and maintain a system to supervise the activities of each ... associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD [or FINRA] Rules."²

NASD Rule 3010(b) and FINRA Rule 3110(b) further require FINRA member firms to "establish, maintain, and enforce written procedures to supervise the types of business in

² FINRA Rule 3110 replaced NASD Rule 3010 effective December 1, 2014.

which it engages and to supervise the activities of [its] ... associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable [NASD or FINRA] Rules....”

A violation of NASD Rule 3010 and FINRA Rule 3110 constitutes a violation of FINRA Rule 2010.

Here, prior to March 2015, the Firm had no supervisory system or written supervisory procedures regarding the delivery of quarterly account statements to Retirement Plan Customers, as required by NASD Rule 2340. Similarly, it was not until March 1, 2015, that the Firm assigned responsibility for ensuring the Firm’s delivery of quarterly account statements to a registered principal and subsequently amended its written supervisory procedures and Compliance Manual to reflect the new supervisory processes to ensure compliance with NASD Rule 2340.

By failing to establish, maintain and enforce an adequate supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with NASD Rule 2340, Advisors violated NASD Rules 3010(a) and (b) (for violations occurring prior to December 1, 2014), FINRA Rule 3110 (a) and (b) (for violations occurring on or after December 1, 2014) and FINRA Rule 2010.

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

1. A censure; and
2. A fine in the amount of \$50,000.

The Firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payments are due and payable. The Firm 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 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

The Firm 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 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, the Firm 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.

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 ("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 the Firm; 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 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. 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.

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 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.

Nov 15, 2016
Date

Advisors Clearing Network Inc., Respondent

By:

Thomas Wetmore
Name: THOMAS WETMORE
Title: CFO/CCO
Advisors Clearing Network, Inc.
7 N. Fair Oaks Avenue
Pasadena, California 91103

Accepted by FINRA:

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

11/17/16
Date

Richard Chin
Richard Chin
Chief Counsel
FINRA Department of Enforcement
One Brookfield Place
200 Liberty Street, 11th Floor
New York, New York 10281