

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2016048760501**

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

RE: Edward Jones, Respondent
CRD No. 250

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Edward Jones 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 Edward Jones alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Edward Jones 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

Edward Jones is a large retail broker-dealer that has been registered with FINRA or its predecessor since 1939. As of December 2016, Edward Jones had 12,357 branch offices and 17,958 registered people.

RELEVANT DISCIPLINARY HISTORY

Edward Jones does not have any relevant history of discipline.

OVERVIEW

For two years, Edward Jones overcharged interest totaling approximately \$708,000 on loans to the owners of 6,127 customer accounts. The overcharges occurred because Edward Jones did not adequately supervise its system for determining the interest rates on those loans. As a result, Edward Jones violated NASD Rule 3010(a) and FINRA Rules 2010 and 3110(a).

FACTS AND VIOLATIVE CONDUCT

In January 2014, Edward Jones changed its method of determining the interest rates on certain types of loans ("margin loans") to customers. Edward Jones began basing those rates on the total value of the assets in the customer's "relationship pricing group", which—according to the firm's statement of credit terms—encompassed the customer's accounts and those of "related parties". Generally, customers in relationship pricing groups with more assets were charged lower interest rates.

Edward Jones' automated system for computing interest on margin loans treated accounts as part of a relationship pricing group if their statements were mailed together. However, the definition of "relationship pricing group" in Edward Jones' statement of credit terms was broader—certain accounts qualified as relationship pricing groups even though their statements were mailed separately. Edward Jones did not identify the discrepancy between its statement of credit terms and the logic of its automated system for two years. As a result, Edward Jones excluded several thousand qualifying accounts from relationship pricing groups, meaning that those customers paid more interest than the firm had agreed to charge. From January 2014 to January 2016, Edward Jones overcharged interest on margin loans totaling approximately \$708,000 to the owners of 6,127 accounts.

During that period, Edward Jones did not test its automated system for grouping accounts for the assignment of interest rates on margin loans. Instead, Edward Jones supervised interest on margin loans by reviewing a monthly report from one of the firm's vendors, but that report incorporated the problem with the logic of the firm's automated system. Additionally, Edward Jones did not direct its supervisors to use the reports to review the firm's method of assigning interest rates, and the supervisors sampled only a small number of accounts on the reports.

Before December 1, 2014, NASD Rule 3010(a) required firms to "establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD Rules." Since December 1, 2014, FINRA Rule 3110(a) has imposed substantially similar requirements. Violating those rules also violates FINRA Rule 2010, which provides that "[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade." By inadequately supervising its system for computing interest on margin loans, Edward Jones violated NASD Rule 3010(a) and FINRA Rules 2010 and 3110(a).

OTHER FACTORS

In resolving this matter, FINRA recognized Edward Jones' extraordinary

cooperation by (1) discovering and voluntarily reporting the problem to FINRA before any regulators detected the problem, and (2) voluntarily paying restitution of approximately \$708,000 plus interest to affected customers.

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

Censure
Fine of \$125,000

Edward Jones agrees to pay that fine upon notice that this AWC has been accepted and that such payment is due and payable. Edward Jones has submitted an Election of Payment form showing the method by which the firm proposes to pay that fine. Edward Jones specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, that fine. The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

Edward Jones specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against Edward Jones;
- 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, Edward Jones 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.

Edward Jones 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

Edward Jones 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 Edward Jones; and**
- C. If accepted:**
 - 1. this AWC will become part of Edward Jones' permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Edward Jones;**
 - 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. Edward Jones 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. Edward Jones 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 Edward Jones' testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.**
- D. Edward Jones may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Edward Jones 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 Edward Jones, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and have been given a full

opportunity to ask questions about it; that Edward Jones 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 Edward Jones to submit it.

01/24/2017
Date (mm/dd/yyyy)


Edward Jones

By: PRINCIPAL & DEPUTY GENERAL
COUNSEL

Reviewed by:

Robert G. Brunton
Counsel for Edward Jones

Accepted by FINRA:

Feb. 1, 2017
Date

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


J. Loyd Gattis III
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