

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2016051515201**

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

RE: Davenport & Company, LLC, Respondent
FINRA Member Firm
BD No. 1588

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

I.

ACCEPTANCE AND CONSENT

- A. Davenport 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

Davenport has been a registered broker-dealer with FINRA or its predecessors since February 4, 1938, and its registration remains in effect. The Firm is headquartered in Richmond, Virginia, and has approximately 28 branch offices with over 350 registered representatives. Davenport offers investment services for individuals, corporations, institutions and municipalities, including stock and bond brokerage, investment management, research, financial planning, insurance, public finance and corporate finance services.

RELEVANT DISCIPLINARY HISTORY

Davenport has no relevant formal disciplinary history with the Securities and Exchange Commission, any self-regulatory organization or any state securities regulators.

OVERVIEW

From February 2014 through December 2015 (the "Relevant Period"), Davenport failed to establish, maintain, and enforce a supervisory system, including written supervisory procedures, reasonably designed to supervise representatives' use of consolidated reports, in violation of NASD Rule 3010 (for conduct prior to December 1, 2014) and FINRA Rule 3110 (for conduct on or after December 1, 2014), and FINRA Rule 2010.

In addition, during the Relevant Period, Davenport violated Section 15(c)(3) of the Securities and Exchange Act of 1934 and Exchange Act Rule 15c3-5, FINRA Rule 2010 and MSRB Rule G-27 by failing to establish a system of risk management controls and supervisory procedures for two alternative trading systems for municipal securities transactions.

FACTS AND VIOLATIVE CONDUCT

A. Failure to Supervise Consolidated Reports

A "consolidated report" is a document provided by a broker to a customer that combines account information regarding most or all of a customer's assets. On April 8, 2010, FINRA issued Regulatory Notice 10-19, which reminded member firms that consolidated reports are communications with the public by the firm and must be clear, accurate, and in compliance with federal securities laws and FINRA Rules. Notice 10-19 cautioned firms that consolidated reports, "if not rigorously supervised . . . can raise a number of regulatory concerns, including the potential for communicating inaccurate, confusing or misleading information to customers[.]" Notice 10-19 advised that firms that permit registered representatives to provide consolidated reports to customers "must ensure that the size and complexity of the consolidated reporting program does not exceed the firm's ability to supervise the activity and to subject it to a rigorous system of internal controls."

Prior to June 30, 2015, Davenport prohibited its registered representatives from creating consolidated reports. However, the Firm failed to implement any procedures or controls to enforce this prohibition. As a result, nearly 700 consolidated reports were prepared by registered representatives and shared with customers while this prohibition was in effect.

On June 30, 2015, the Firm updated its written supervisory procedures to permit the creation and use of consolidated reports. The new procedures permitted representatives to manually enter asset values for assets held away from the Firm. For these manually-entered assets, the procedures required that the representative "tie[] back" the asset value to supporting documentation, *e.g.*, an official statement or report, and identify the supporting documentation within the consolidated report itself. The new procedures also required that representatives

include a disclosure statement on all consolidated reports stating, among other things, that the report "may include assets that Davenport does not hold on your behalf ('held away assets') which are not included on the Firm's books and records . . . You are encouraged to review and maintain the official source document(s) provided by the account custodian(s) for held away assets." Finally, the new procedures required that representatives maintain the "back-up" documentation used to create each consolidated report in a separate branch file, and that supervisors "take reasonable steps" to confirm the accuracy of the reports.

These procedures were not consistently enforced. Review of a sample of the more than 200 consolidated reports provided to Davenport's customers on or after June 30, 2015 showed that a significant percentage contained asset values for assets held away from the firm but did not (1) "tie back" those asset values to supporting documentation, (2) identify the supporting documentation within the report, and/or (3) contain the required disclosures. In addition, in numerous instances, representatives failed to maintain the back-up documentation used to create the consolidated reports in a separate file, as required, and there was no evidence of supervisory review. Further, many of these reports contained erroneous asset values for assets held away from the Firm.

Based on the foregoing, Davenport violated NASD Rule 3010 (for conduct prior to December 1, 2014) and FINRA Rule 3110 (for conduct on or after December 1, 2014), and FINRA Rule 2010.

B. Market Access

Exchange Act Rule 15c3-5, among other things, requires broker-dealers with market access, or that provide customers or any other persons with access to an exchange or alternative trading system, to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to: systematically limit the financial exposure of the broker or dealer that could arise as a result of market access, and ensure compliance with applicable regulatory requirements in connection with market access.

Exchange Act Rule 15c3-5(c)(1) further requires the risk management controls and supervisory procedures be reasonably designed (1) to prevent the entry of orders that exceed appropriate pre-set credit or capital thresholds in the aggregate for each customer and the broker or dealer; and (2) to prevent the entry of erroneous duplicative orders.

FINRA Rule 2010 requires firms and associated persons to "observe high standards of commercial honor and just and equitable principles of trade."

MSRB Rule G-27(a) requires each broker, dealer, and municipal securities dealer to supervise the conduct of their municipal securities activities and to ensure

compliance with MSRB Rules and the Securities Exchange Act of 1934. MSRB Rule G-27(b) requires municipal dealers to establish and maintain a supervisory system that is reasonably designed to achieve compliance with applicable securities laws and regulations and MSRB Rules.

During the Relevant Period, the Firm used two alternative trading systems ("ATSS") to execute municipal bond transactions and provided its traders with direct access to these ATSS. The Firm used ATS A to execute municipal bond transactions for institutional clients and primarily used ATS B to execute municipal bond transactions for retail clients.

From February 2014 through December 2015, Davenport did not establish, document or maintain a reasonable system to prevent trades that exceeded capital and credit limits prior to trade execution through the ATSS, as required by Exchange Act Rule 15c3-5(c). For ATS A, the Firm established post-trade alerts to Firm management that would be triggered if a capital or credit limit was exceeded. However, those alerts did not prevent trades that exceeded capital and credit limits on a pre-trade basis.

In addition, the Firm did not establish reasonable controls to prevent duplicative orders through the ATSS, on a pre-trade basis. Further, for ATS B, the Firm did not establish reasonable controls to prevent the execution of erroneous orders that exceeded appropriate price parameters.

By virtue of the foregoing, Davenport violated Section 15(c)(3) of the Exchange Act and Exchange Act Rule 15c3-5, FINRA Rule 2010, and MSRB Rule G-27.

B. Davenport also consents to the imposition of the following sanctions:

- A censure; and
- A fine in the amount of \$115,000 (\$20,000 of which pertains to the violation of MSRB Rule G-27).

Davenport agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Davenport has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Davenport specifically and voluntarily waives any right to claim that it 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

Davenport 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, Davenport 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.

Davenport further specifically and voluntarily waive 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

Davenport understands that:

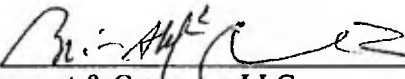
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will 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 Davenport'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. 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. Davenport may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Davenport 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 Davenport 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.

10/20/2017
Date (mm/dd/yyyy)

By: 
Davenport & Company, LLC
Brian McCormack, Chief Compliance Officer

Accepted by FINRA:

2-27-2017
Date

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



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