

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2017052842901**

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

RE: Robert W. Baird & Co. Incorporated, Respondent
Broker-Dealer
CRD No. 8158

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Robert W. Baird & Co. Incorporated ("Baird" 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

Baird is a full-service broker-dealer headquartered in Milwaukee, Wisconsin. It has been a FINRA member since 1971. Baird currently employs more than 2,600 registered representatives and maintains over 170 branch offices.

RELEVANT DISCIPLINARY HISTORY

Baird has no prior relevant disciplinary history.

OVERVIEW

Between late April and early July 2013, Baird published seven research reports about Issuer A without disclosing that RA, the research analyst who authored the reports, was engaged in employment discussions with Issuer A that constituted an actual, material conflict of interest. The Firm thereby violated NASD Rules 2711(h)(1)(C) and 2711(h)(9) and FINRA Rule 2010.¹

FACTS AND VIOLATIVE CONDUCT

In 2013, RA was a senior equity research analyst at Baird who covered around two dozen companies, including Issuer A. In early April 2013, Issuer A's Chief Executive Officer ("CEO") asked RA if he would be interested in visiting Issuer A's headquarters to discuss potential employment at Issuer A. Shortly thereafter, RA travelled to Issuer A's headquarters and discussed potential employment with Issuer A's CEO and Chief Financial Officer. Following those discussions, the CEO and RA expressed a mutual interest in continuing discussions and agreed that the CEO would speak with Baird senior management before they engaged in any further employment discussions.

Pursuant to the agreement between Issuer A and RA described above, Issuer A's CEO called Baird senior management in late April 2013 to inform the Firm that he had met with RA to discuss potential employment and that Issuer A intended to engage in further employment discussions with RA. Issuer A's CEO also sought assurance that Baird did not object to Issuer A hiring RA and an assessment of RA as a candidate for a position at Issuer A. Through that call, the Firm was made aware that the employment discussions involved a high level of seriousness, RA's candidacy for employment at Issuer A was clearly viable, and Issuer A and RA had expressed mutual interest and taken concrete steps in furtherance of their employment discussions. Accordingly, the employment discussions constituted an actual, material conflict of interest for RA.

RA also spoke to Baird senior management about his intent to continue employment discussions with Issuer A. During that discussion, RA was advised that he could continue writing research about Issuer A, but that he should avoid coming into contact with material nonpublic information about Issuer A during the employment discussions. A few days later, RA was told that this advice had been confirmed by the Firm's compliance department. RA's employment discussions with Issuer A continued through early July 2013. In early July 2013, after multiple rounds of negotiations, RA declined a written employment offer from Issuer A. Between late April 2013, when Issuer A's CEO called Baird senior management, and early July 2013, when RA declined the employment offer, RA authored and Baird published seven research reports on Issuer A without disclosing that RA was engaged in the employment discussions with Issuer A described above.

¹ NASD Rule 2711 was superseded by FINRA Rule 2241 on December 24, 2015, after the events described herein.

NASD Rule 2711 was intended to “restore investor confidence in a process that is critical to the equities markets” and “improve the objectivity of research and provide investors with more useful and reliable information when making investment decisions.”²

The rule required disclosure of certain specific conflicts of interest. In addition to those specific disclosures, Rule 2711(h)(1)(C) provided that a member firm must disclose in research reports “any other actual, material conflict of interest of the research analyst or member of which the research analyst knows or has reason to know at the time of publication of the research report.” An analyst has a conflict of interest when circumstances give the analyst incentives that compete with his or her regulatory responsibility to issue objective and reliable research reports. A conflict of interest is material when there is a substantial likelihood that a reasonable investor would have considered the conflict important to his or her investment decision, and disclosure of the conflict would have significantly altered the total mix of information available to the investor. As described above, when Issuer A’s CEO called Baird senior management regarding the status of the employment discussions with RA, the Firm was made aware that the employment discussions involved a high level of seriousness, RA’s candidacy was clearly viable, and Issuer A and RA had expressed mutual interest and taken concrete steps in furtherance of their employment discussions. Accordingly, at that time, RA’s employment-related discussions with Issuer A constituted an actual, material conflict of interest that Baird was required to disclose.

NASD Rule 2711(h)(9) provided that, in addition to the disclosures required by Rule 2711, “members and research analysts must provide disclosure in research reports...that is required by applicable law or regulation, including NASD Rule 2210....” NASD Rule 2210 stated that, in communications with the public, “[n]o member may omit any material fact or qualification if the omission, in light of the context of the material presented, would cause the communications to be misleading.” The failure to disclose the actual, material conflict of interest arising from RA’s employment discussions with Issuer A in the seven research reports authored by RA and published by Baird on Issuer A between late April and early July 2013 made those reports misleading.

By virtue of the foregoing, Baird failed to disclose an actual, material conflict of interest in seven research reports, in violation of NASD Rule 2711(h)(1)(C). That omission also caused the seven research reports to be misleading, in violation of NASD Rule 2711(h)(9). By virtue of those violations, the Firm also violated FINRA Rule 2010.

² NASD Notice to Members 02-39.

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

- a censure; and
- a \$150,000 fine.

The Firm agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is 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 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 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, 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 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. The Firm 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 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.

05/13/2019
Date (mm/dd/yyyy)

Robert W. Baird & Co. Incorporated

By: Brian Tucker

Name: Brian Tucker

Title: MANAGING DIRECTOR

Reviewed by:

Counsel for Respondent

[Signature]

Peter K.M. Chan
Morgan, Lewis & Bockius LLP
77 West Wacker Drive
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(312) 324-1179

Accepted by FINRA:

06/07/2019
Date

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

[Signature]

Edwin Aradi
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FINRA Department of Enforcement
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