

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2018057286802**

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

RE: Stifel, Nicolaus & Company, Inc., Respondent
Member Firm
CRD No. 793

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Stifel, Nicolaus & Company, Inc. (Stifel) 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 Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Stifel 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

Stifel became a FINRA member in October 1936, and registered with the Securities and Exchange Commission (SEC) in January 1936. Stifel's headquarters is in St. Louis, Missouri, and it has 4,950 registered representatives and 430 branch offices throughout the country. Stifel's business operations include executing equities and fixed income transactions for retail and institutional customers, providing wealth management services, handling public offerings of securities, proprietary trading, and other aspects of the brokerage business.

RELEVANT DISCIPLINARY HISTORY

Stifel does not have any relevant disciplinary history with the SEC, any state securities regulators, FINRA, or any other self-regulatory organization.

OVERVIEW

From October 31, 2017 through February 27, 2020 (the review period), Stifel lacked a supervisory system, including written supervisory procedures (WSPs), reasonably designed to detect and prevent Stifel and its registered representatives from executing pre-arranged transactions. Stifel did not have exception reports, trade alerts, or other

supervisory mechanisms designed to enable the firm's supervisors to identify potential pre-arranged transactions. As a result of its supervisory failures, Stifel violated Municipal Securities Rulemaking Board (MSRB) Rule G-27.

FACTS AND VIOLATIVE CONDUCT

1. MSRB Rule G-27 (Rule G-27), entitled "Supervision," sets forth the requirements of a municipal securities dealer to supervise its conduct regarding municipal securities activities to ensure compliance with applicable securities laws, regulations, and applicable MSRB Rules. Rule G-27(a) requires municipal securities dealers to supervise the conduct of the municipal securities activities of both the dealer and its associated persons. Rule G-27(b) requires municipal dealers to establish and maintain a supervisory system to supervise the municipal securities activities of all registered persons and associated persons. Rule G-27(c) requires municipal dealers to adopt, maintain, and enforce WSPs that are reasonably designed to ensure that the conduct of the municipal securities activities of the firm and its associated persons comply with applicable securities laws, regulations, and MSRB Rules.
2. During the review period, Stifel's Policies and Procedures Manual (Procedures Manual) prohibited the firm and its registered representatives from executing pre-arranged transactions. While Stifel prohibited pre-arranged transactions, it did not have a supervisory system, including WSPs, that was reasonably designed to ensure that Stifel prevented its registered representatives from executing such transactions during the review period. Specifically, Stifel did not have exception reports, trade alerts, or other supervisory mechanisms designed to enable its supervisors to identify pre-arranged transactions. Instead, Stifel relied on its supervisors to detect and prevent such transactions as part of their daily review of thousands of transactions on trade blotters. Though Stifel's automated reviews of its trade blotters flagged some types of prohibited transactions for supervisory review, they did not flag pre-arranged transactions. Therefore, Stifel's supervisory system was not reasonably designed.
3. During the review period, a former Stifel registered representative effected 56 pairs of pre-arranged transactions in municipal securities between the accounts of Stifel's customers by trading with another broker-dealer. Each of these transactions was effected in the same general manner, with Stifel selling municipal bonds as agent on behalf of one of Stifel's customers to another broker-dealer and then buying the same bonds back on the same day from the same broker-dealer as agent on behalf of another Stifel customer. Since Stifel's automated trade/account review system did not include exception reports or trade alerts designed to detect pre-arranged transactions, none of these transactions were flagged for further review and action by a branch manager.
4. Accordingly, during the review period, Stifel did not establish and maintain a supervisory system, including WSPs, reasonably designed to detect and prevent Stifel and its registered representatives from executing pre-arranged transactions. As a result of the foregoing, Stifel violated MSRB Rules G-27.

- B. Respondent also consents to a censure and fine of \$40,000.¹

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

Respondent specifically and voluntarily waives any right to claim an inability 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, 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.

¹ No supervisory undertaking is imposed in this AWC because Stifel has updated its supervisory system and WSPs regarding the cited supervisory deficiencies.

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 action brought by FINRA or any other regulator against Respondent;
 - 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.

Respondent certifies that it has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; Respondent has agreed to the AWC's provisions voluntarily; and 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 it to submit this AWC.

8-17-2020
Date

Stifel, Nicolaus & Company, Inc.
Respondent

By: J. Rosa
Print Name: JOSEPH ROSA
Title: Senior Vice President
Deputy General Counsel

Reviewed by:

Russell M. Fecteau
Russell M. Fecteau, Esq.
Counsel for Respondent
Morgan, Lewis & Bockius LLP
1111 Pennsylvania Avenue, N.W.
Washington, DC 20004-2541

Accepted by FINRA:

September 1, 2020
Date

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

Gary Jackson
Gary E. Jackson
Senior Counsel
FINRA
Department of Enforcement
15200 Omega Drive
Rockville, Maryland 20850