

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2018059630401**

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

RE: Canaccord Genuity Wealth Management (USA) Inc. (Respondent)
Member Firm
CRD No. 7449

Pursuant to FINRA Rule 9216, Respondent Canaccord Genuity Wealth Management (USA) Inc. (Canaccord) 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 in this AWC.

I.

ACCEPTANCE AND CONSENT

- A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

Canaccord has been a FINRA member since 1977. It conducts a general securities business. Canaccord has approximately 85 registered representatives across seven branch offices, all in Canada. It is headquartered in Vancouver.¹

OVERVIEW

From March 2017 through March 2020, Canaccord failed to establish, maintain, and enforce a supervisory system, including written procedures, reasonably designed to achieve compliance with FINRA's suitability rule in connection with sales of private placements in violation of FINRA Rules 3110 and 2010. Between March 2017 and August 2018, Canaccord failed to timely file required documents with FINRA related to 12 private placements sold by its representatives in violation of FINRA Rules 5123 and 2010. Further, from March to June 2017, Canaccord violated NASD Rule 1031 and FINRA Rule 2010 by allowing an unregistered person to engage in its securities business.

FACTS AND VIOLATIVE CONDUCT

This matter originated from a FINRA examination of Canaccord.

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

1. Canaccord failed to establish, maintain, and enforce a supervisory system reasonably designed to achieve compliance with its suitability obligations in connection with sales of private placements.

FINRA Rule 3110(a) requires that every member firm establish and maintain a system, including written procedures, to supervise the activities of its associated persons that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules. FINRA Rule 3110(b) requires member firms to establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA Rules. A violation of FINRA Rule 3110 also is a violation of FINRA Rule 2010, which requires member firms to “observe high standards of commercial honor and just and equitable principles of trade” in the conduct of their business.

Canaccord’s supervisory obligations under FINRA Rule 3110 include the obligation to supervise the activities of its associated persons so as to reasonably achieve compliance with the suitability rule, FINRA Rule 2111. That rule requires members and their associated persons to have a reasonable basis to believe that a recommended transaction involving a security is suitable for the customer based on the customer’s investment profile.

FINRA Regulatory Notice 10-22 (April 2010) reminded members firms of their responsibility for determining the suitability of an investment prior to recommending it; and that member firms selling private placements must have supervisory procedures reasonably designed to ensure that firm personnel, including registered representatives, conduct an inquiry that is sufficiently rigorous to comply with their legal and regulatory requirements. To demonstrate that it has performed a reasonable investigation, a broker-dealer should retain records documenting both the process and results of its investigation.

FINRA Regulatory Notice 11-02 (January 2011) reminded member firms that a recommendation is the “triggering event for application” of a firm’s suitability obligations under FINRA Rule 2111. And NASD Notice to Members 01-23 (April 2001) advised members, in part, to “analyze any communication about a security that reasonably could be viewed as a ‘call to action’ . . . to determine whether a ‘recommendation’ is being made” that would trigger suitability obligations.

From March 2017 to March 2020, Canaccord relied on its registered representatives to identify to supervisors when a private placement had been recommended to a customer. However, Canaccord’s written supervisory procedures lacked guidance to representatives and supervisors concerning the kinds of communications that constituted a recommendation in connection with sales of private placements; lacked procedures informing supervisors about what to review to determine whether representatives correctly identified sales of private placements as recommended or non-recommended; and did not address retention of documents reflecting whether a private placement was recommended. The firm also failed to provide guidance concerning the suitability review

that should occur prior to a recommendation to invest in a private placement. In addition, in 2017, Canaccord established a policy requiring an email review to identify whether a recommendation was made. However, the review was not reasonably designed to identify instances when recommendations had been made.

From March 2017 to March 2020, Canaccord facilitated 103 private placement investments in mining and minerals companies whose stock trade on Canadian exchanges. Although the majority of these transactions were unsolicited, in 13 instances Canaccord failed to identify that a recommendation had been made as a result of the representative bringing the investment to the attention of the customer and the firm, in turn, failed to conduct a supervisory review to assess whether there was a reasonable basis for the recommendation. In nine other instances, the firm was aware that the transaction had been solicited yet the firm failed to reasonably document that a recommendation had been made or its suitability analysis. Rather, the firm advised customers in forms it provided them that “Canaccord has conducted no due diligence” in connection with the offerings.

Therefore, Canaccord violated FINRA Rules 3110 and 2010.

2. Canaccord failed to timely file required documents related to private placements sold by its registered representatives.

FINRA Rule 5123 requires in relevant part that member firms selling a security in a private placement (i) submit to FINRA, or have submitted on its behalf, a copy of any private placement memorandum, term sheet or other offering document, used in connection with such sale within 15 calendar days of the date of first sale; or (ii) notify FINRA that no such offering documents or retail communications were used. A violation of FINRA Rule 5123 is also a violation of FINRA Rule 2010.

From March 2017 through July 2018, Canaccord failed to timely file required documents with FINRA related to 12 private placements that it sold. Canaccord made initial filings between one and 42 days late. Eight of those filings were incomplete because they lacked copies of at least some required documents. For the eight incomplete filings, Canaccord later submitted the required documents from 43 to 863 days late.

Therefore, Canaccord violated FINRA Rules 5123 and 2010.

3. Canaccord violated NASD Rule 1031 and FINRA Rule 2010 by allowing a non-registered person to engage in its securities business.

NASD Rule 1031 provided that “[a]ll persons engaged or to be engaged in the investment banking or securities business of a member who are to function as representatives shall be registered as such with NASD in the category of registration appropriate to the function to be performed as specified in Rule 1032.”²

² FINRA Rules 1210 and 1220 superseded NASD Rules 1031 and 1032, respectively, on October 1, 2018.

From March to June 2017, an individual who was registered with Canaccord's Canadian affiliate engaged in the firm's United States securities business without being registered. The non-registered person (i) emailed potential investors in the United States about an issuer with whom the non-registered person's spouse was affiliated and (ii) subsequently recommended that one of the potential investors participate in the offering and open an account at Canaccord for that purpose. The firm became aware of this activity no later than June 2017, but failed to take reasonable steps to either restrict the individual's activities or register him.

Therefore, Canaccord violated NASD Rule 1031 and FINRA Rule 2010.

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

- a censure;
- a \$200,000 fine; and
- A certification: within 90 days of the Notice of Acceptance of this AWC, Respondent shall certify to FINRA in a submission signed by an officer and principal of the firm that, as of the date of the certification, Respondent has established and implemented supervisory systems and procedures reasonably designed to address and remediate the issues identified in this AWC. The certification shall be addressed to John-Michael Q. Seibler, Counsel, FINRA Department of Enforcement, 15200 Omega Drive Suite 300, Rockville, MD 20850; John-Michael.Seibler@finra.org. Upon written request showing good cause, FINRA staff may extend the procedural date set forth above.

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 after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

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 its acceptance or rejection.

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.

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 its subject matter 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 right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.

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.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's 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 Respondent has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

August 18, 2022
Date


Canaccord Genuity Wealth Management (USA) Inc.
Respondent

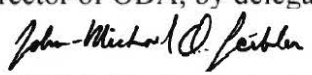
Print Name: Tom Cox

Title: President

Accepted by FINRA:

9/8/22
Date

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


John-Michael Q. Seibler
Counsel
FINRA
Department of Enforcement
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