

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2019062059301**

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

RE: Barclays Capital Inc. (Respondent)
Member Firm
CRD No. 19714

Pursuant to FINRA Rule 9216, Respondent Barclays Capital Inc. 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

Barclays Capital Inc., which has been a FINRA member since 1987, has approximately 2,900 registered representatives and 16 branch offices. The firm has its principal place of business in New York, New York, and it engages in multiple business lines, including the provision of trade execution, clearing, investment banking, and research services.

In January 2016, FINRA censured and fined Barclays \$500,000 for failing to accurately disclose the percentage of covered companies for which it provided investment banking services during the prior 12 months in over 40,000 research reports, failing to disclose in 3,073 reports that it was a market maker in the securities of the covered company, and failing to adopt and implement written supervisory procedures (WSPs) reasonably designed to ensure compliance with NASD Rule 2711(h)(5) and (8).

In December 2014, FINRA censured and fined Barclays \$5,000,000 for permitting a research analyst to participate in efforts to solicit investment banking business, offering favorable research to obtain investment banking business, and failing to adopt and implement WSPs reasonably designed to ensure compliance with NASD Rule 2711.¹

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

OVERVIEW

Under FINRA rules relating to research analyst conflicts of interest, a firm must have policies and procedures prohibiting an analyst from trading in a security in a manner inconsistent with the analyst's published rating of that security. In addition, a member must disclose in an equity research report if an analyst has a financial interest in the securities of a company covered in the report. From January 2016 to August 2019, Barclays failed to establish and maintain a supervisory system, including WSPs, reasonably designed to comply with these rules.

In particular, Barclays failed to timely or reasonably monitor its research analysts' managed brokerage accounts for compliance with trading restrictions on equity research analysts or to determine if they held securities in companies they covered. As a result, the firm failed to identify and did not disclose in 99 equity research reports that analysts held securities of a covered company and did not discover three instances in which an analyst's external account manager traded in a manner inconsistent with the analyst's most recently published recommendation on a company. Accordingly, the firm violated FINRA Rules 2241(b)(2)(J), 2241(c)(4)(A), 3110(a) and (b)(1), and 2010.

The firm's WSPs also did not include a process for the review of securities transactions in equity research analysts' external managed accounts reasonably designed to identify potential violations of securities laws, including potential market manipulation and insider trading. The firm accordingly violated FINRA Rules 3110(d) and 2010.

From at least April 2021 through March 2022, the firm failed to obtain data for certain clients of Barclays affiliates to determine whether it needed to disclose specified conflicts of interest in its research reports. As a result, the firm failed to disclose in at least 803 reports covering 22 issuers that an affiliate had received non-investment banking related compensation from the issuer within the prior 12 months. The firm accordingly violated FINRA Rules 2241(c)(4)(D) and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from two self-reports by Barclays pursuant to FINRA Rule 4530.

Prior to August 2019, Barclays did not establish and maintain a supervisory system reasonably designed to restrict or limit trading in covered securities in research analyst external managed accounts.

FINRA Rule 2241(b)(2)(J) requires firms to establish, maintain, and enforce written procedures that "restrict or limit research analyst account trading in securities, any derivatives of such securities and funds whose performance is materially dependent upon the performance of securities covered by the research analyst." Under FINRA Rule 2241(c)(4)(A), a member must disclose in any research report if an equity research analyst or a member of the research analyst's household has a financial interest in the debt or equity securities of the subject company. And, under FINRA Rule 2241(b)(2)(J)(ii), a member's written procedures must provide that "no research analyst account may purchase or sell any security or any option on or derivative of such security in a manner inconsistent with the

research analyst's recommendation as reflected in the most recent research report" published by the firm. Rule 2241 covers holdings in equity research analysts' brokerage accounts, including managed accounts (except for blind trusts, which are not at issue here).

FINRA Rule 3110(a) requires firms to establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules. FINRA Rule 3110(b)(1) requires firms to establish, maintain, and enforce written procedures reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.

A violation of FINRA Rule 2241 or 3110 is also a violation of FINRA Rule 2010, which requires a member, in the conduct of its business, to observe high standards of commercial honor and just and equitable principles of trade.

At all relevant times, Barclays's WSPs prohibited all research analysts from any investment activity in any security of an issuer the analyst covered. Prior to August 2017, however, the firm's supervisory systems were not reasonably designed to achieve compliance with its trading restrictions in that the firm failed to conduct any review of statements for research analysts' external managed accounts. The firm instead relied on an unwritten procedure whereby the firm instructed its research analysts to obtain from their external account managers confirmations that the managers would comply with the firm's trading restrictions regarding covered securities.

In addition to this procedure not being memorialized and included in the firm's WSPs, the firm did not take steps to ensure (1) that it properly instructed its research analysts to provide their external managed account managers with a list, updated as needed, of covered companies; or (2) that research analysts actually obtained from their external account managers confirmation that the managers received the list of covered companies and would comply with the firm's trading restrictions. For example, the firm did not regularly document any instructions it gave to its research analysts; nor did it regularly review confirmations its analysts obtained from their external account managers. Indeed, the firm took no other steps to determine whether any trading in a covered security occurred in violation of firm policy, and if so, whether any such trades were inconsistent with the analysts' most recently published recommendations.

As a result, in multiple instances, research analysts never instructed their external account managers regarding trading restrictions. These research analysts held securities of covered companies in external managed accounts, and, in some instances, the research analyst's external account manager traded those securities in a manner inconsistent with the research analyst's recommendations. In addition, in at least 99 published equity research reports, the firm failed to disclose the research analyst's financial interest in securities of the subject company.

For example, in August 2016, in connection with a request to transfer an external managed account to a different external broker dealer, the firm for the first time reviewed a research analyst's external managed account holdings. In doing so, it discovered that the analyst held the stock of a company for which the analyst had authored 15 equity research reports between January and July 2016. Those 15 reports did not disclose that the analyst held

securities in the covered company. The firm subsequently discovered that two other research analysts had authored a total of 50 equity research reports while holding the securities of the covered companies. In addition, the respective external account managers for each of the three analysts had, on at least one occasion, purchased the securities of the issuer notwithstanding a neutral or hold rating for the issuer in the relevant research analyst's most recently published research. None of the holdings or trading previously had been detected through the firm's supervisory system.

In August 2017, Barclays implemented new WSPs memorializing the requirement that research analysts obtain written confirmation from external account managers regarding compliance with trading restrictions and began reviewing research analyst external managed account statements. However, on multiple occasions the firm failed to verify and document that equity research analysts provided coverage lists to external account managers and received confirmations from external account managers that they would comply with trading restrictions. In addition, the firm did not take reasonable steps to ensure analysts' external account managers complied with trading restrictions, such as by regularly reviewing statements for external managed accounts or reviewing trading in non-equity securities. Accordingly, the firm continued to fail to identify prohibited trading in research analysts' external managed accounts, causing additional disclosure failures in research reports.

For example, one research analyst authored 19 equity research reports from October 2017 through December 2017 while holding shares of the covered issuer in violation of the firm's prohibition on analyst trading in covered securities. The firm did not timely detect or disclose the holdings because the firm did not review trades executed in the analyst's external managed account for more than six months after the account was disclosed. In another example, in August 2019, the firm discovered that a research analyst had authored 15 equity research reports that had a buy rating on the security while the analyst's external account manager had twice purchased bonds of the issuer in violation of the firm's prohibition on analyst trading in covered securities. The firm had failed to timely detect or disclose the holdings because the firm did not review the analyst's external managed account for trading in non-equity securities. The firm implemented updated controls in August 2019.

Thus, from January 2016 to August 2019, Barclays did not establish and maintain a supervisory system, including WSPs, reasonably designed to restrict trading in covered securities in research analyst external managed accounts in compliance with FINRA Rule 2241. As a result, Barclays violated FINRA Rules 2241(b)(2)(J), 3110(a) and (b)(1), and 2010. Furthermore, as a result of the supervisory deficiencies described above, in at least 99 instances the firm published equity research reports without disclosing that an analyst had a financial interest in the subject company, in violation of FINRA Rules 2241(c)(4)(A) and 2010.

Prior to August 2019, Barclays did not timely or consistently review trading in equity research analyst external managed accounts to identify potential securities law violations.

FINRA Rule 3110(d) requires firms to include in its supervisory procedures a process for the review of securities transactions that are reasonably designed to identify trades that may

violate the provisions of the Exchange Act, the rules thereunder, or FINRA rules prohibiting insider trading and manipulative and deceptive devices.

As described above, prior to August 2019, the firm did not timely or reasonably review the account statements for the external managed accounts held by the firm's research analysts to identify trades that may have violated the Exchange Act, the rules thereunder, or FINRA rules. As a result, Barclays violated FINRA Rules 3110(d) and 2010.

Barclays failed to disclose receipt of compensation by an affiliate in 803 equity research reports.

FINRA Rule 2241(c)(4)(D) requires firms to disclose in a research report if the firm or an affiliate has received any compensation from the subject company for products or services other than investment banking services in the previous 12 months.

In December 2021, the firm discovered that a data feed it used to disclose conflicts of interest in its research reports did not contain complete information about payments to Barclays affiliates for non-investment banking services. As a result of the data-feed issue, from at least April 2021 to March 2022, the firm failed to disclose in 803 equity research reports for 22 issuers that one of its affiliates had received compensation from the issuer for non-investment banking services in the previous 12 months. The firm corrected the data feed issue in March 2022.

As a result of its disclosure failures, Barclays violated FINRA Rules 2241(c)(4)(D) and 2010.

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

- a censure and
- a \$700,000 fine.

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.

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,

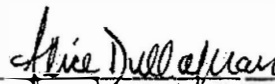
that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other 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.

MARCH 25, 2024

Date



Barclays Capital Inc.
Respondent

Print Name: ALICE DULLAGHAN

Title: DIRECTOR

Accepted by FINRA:

April 12, 2014

Date

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



Edwin Aradi
Senior Counsel
FINRA
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