

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2020068655201**

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

RE: Robert W. Baird & Co., Inc. (Respondent)
Member Firm
CRD No. 8158

Pursuant to FINRA Rule 9216, Respondent Robert W. Baird & Co., 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 Baird alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

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

BACKGROUND

Baird, a full-service brokerage firm, has been a FINRA member since August 1971. The firm is headquartered in Milwaukee, Wisconsin. As of September 2023, Baird had over 3,500 registered representatives and approximately 380 branches.¹

OVERVIEW

Between January 2015 and March 2021, Baird's supervisory system did not provide certain customers with mutual fund sales charge waivers and fee rebates to which they were entitled through rights of reinstatement offered by mutual fund companies. Consequently, eligible customers across more than 2,300 accounts paid approximately \$519,000 in excess sales charges and fees during that period.

Therefore, Baird violated FINRA Rules 3110 and 2010.

As described below, FINRA credits Baird for its extraordinary cooperation in this matter. Accordingly, this AWC includes an order for restitution plus interest, but no fine.

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

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's 2020 targeted examination regarding rights of reinstatement.

Eligible mutual fund customers are entitled to rights of reinstatement.

Mutual fund issuers generally offer various privileges to their shareholders, which are identified in a fund's prospectus or statement of additional information. These privileges may include a right of reinstatement, which allows investors to purchase shares of a fund after previously selling shares of that fund or another fund in the same fund family, without incurring a front-end sales charge (typically, but not always, involving Class A shares), or to recoup all or part of a contingent deferred sales charge (CDSC). The right of reinstatement benefit is available only if the reinvestment occurs within a designated period between the sale and the repurchase, which varies depending on the fund. Typically, the period ranges from 30 days to 120 days but, in some cases, can be up to two years.

Baird failed to reasonably supervise the application of rights of reinstatement.

FINRA Rule 3110(a) requires FINRA members to establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with the applicable securities laws, regulations, and FINRA rules. A violation of FINRA Rule 3110 also constitutes a violation of FINRA Rule 2010, which requires that a member, in the conduct of its business, observe high standards of commercial honor and just and equitable principles of trade.

During the relevant period, Baird's system that provided customers with rights of reinstatement benefits on eligible transactions was not reasonably designed in two basic respects. *First*, the firm's oversight of discounts available through rights of reinstatement relied on an automated alert that was designed primarily to monitor for mutual fund switches that occurred within 90 days of a prior sale. Thus, the alert was not designed to, and did not, capture all transactions eligible for reinstatement privileges because many funds' reinstatement periods exceeded 90 days. *Second*, the firm relied on an ineffective review of these alerts—based on a manual review of random samples—to supervise and confirm whether the firm credited eligible customers with reinstatement privileges. This review process was not reasonably designed or implemented to permit Baird to detect excess sales charges and fees paid by its customers.

As a result of its supervisory deficiencies, Baird did not provide over 2,300 accounts with rights of reinstatement benefits to which they were entitled, and customers paid \$519,646.23 in excess sales charges and fees.

Therefore, Baird violated FINRA Rules 3110 and 2010.

Baird has since enhanced its supervisory system, including by creating and implementing new exception reports designed specifically to identify missed rights of reinstatement benefits in the firm's on-platform and held-away (direct business) accounts. The

enhancements also automated the previously manual review and based that review on parameters drawn from fund prospectus rules. Additionally, Baird worked with mutual fund sponsors to standardize the reinstatement period for firm clients.

CREDIT FOR EXTRAORDINARY COOPERATION

In resolving this matter, FINRA has recognized Baird's extraordinary cooperation for having: (1) conducted an internal review to identify potentially disadvantaged customers and calculate total remediation, including voluntarily extending the review period beyond FINRA's requested date; (2) investigated the extent to which the firm did not provide rights of reinstatement benefits; (3) implemented remedial measures in its systems to close gaps identified during the review; (4) promptly established a plan to provide remediation and notified and paid restitution to affected customers, including interest; and (5) provided substantial assistance to FINRA in its investigation.

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

- a censure and
- restitution of \$519,646.23 plus interest.²

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

II.

WAIVER OF PROCEDURAL RIGHTS

Baird 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.

² Before the effective date of this AWC, Baird paid full restitution, plus statutorily calculated interest, to the affected customers and provided FINRA staff with proof of payment and documentation of the methodology used to determine restitution.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudice 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

Baird 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), in accordance with 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 FINRA's views.

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.

10/30/2023
Date

Christa Gromerson
Robert W. Baird & Co., Inc.
Respondent

Print Name: CHRISTA GROMERSON

Title: CHIEF COMPLIANCE OFFICER

Accepted by FINRA:

November 6, 2023
Date

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

Eric M. Goldstein
Eric M. Goldstein
Director
FINRA
Department of Enforcement
9509 Key West Avenue
Rockville, MD 20850