

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2022074617402**

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

RE: Janney Montgomery Scott LLC (Respondent)
Member Firm
CRD No. 463

Pursuant to FINRA Rule 9216, Respondent Janney Montgomery Scott LLC 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

Janney has been a member of FINRA since 1936, and an MSRB-registered broker-dealer since 1976. The firm is headquartered in Philadelphia, Pennsylvania, and has more than 1,700 registered persons across 146 registered branch offices.¹

OVERVIEW

Between July 2019 and May 2021, Janney failed to appropriately identify transactions in new issue securities reported to the Municipal Securities Rulemaking Board (MSRB), which additionally caused the firm's systems to report inaccurate times of trade for those transactions, in violation of MSRB Rule G-14. During the same period, the firm failed to establish, maintain, and enforce a supervisory system, including written supervisory procedures (WSPs), reasonably designed to achieve compliance with MSRB reporting rules, in violation of MSRB Rule G-27.

In addition, between March 2022 and October 2023, Janney violated the Trade Reporting and Compliance Engine (TRACE) reporting rules by failing to report, overreporting, or reporting inaccurately certain transactions to TRACE. During the same period, the firm failed to establish, maintain, and enforce a supervisory system, including WSPs, reasonably designed to achieve compliance with TRACE reporting rules, in violation of FINRA Rules 3110 and 2010.

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

FACTS AND VIOLATIVE CONDUCT

This matter arose from FINRA reviews of Janney's MSRB and TRACE reporting.

I. MSRB Rule Violations

- a. Janney failed to utilize the required special condition indicator for transactions in new issue securities and incorrectly reported times of trade as a result.**

MSRB Rule G-14(b)(i) requires each broker, dealer, or municipal securities dealer to report "information about each purchase and sale transaction effected in municipal securities to the Real-time Transaction Reporting System (RTRS) in the manner prescribed by the Rule G-14 RTRS Procedures and the RTRS Users Manual." The Rule G-14 RTRS Procedures require that certain transactions affected by special conditions be reported with a "special condition indicator," as detailed in the Specifications for Real-Time Reporting of Municipal Securities Transactions. Those Specifications provide that:

[d]ealers shall report "List Offering Price/Takedown Transactions" by the end of the day on which the transactions are executed. "List Offering Price/Takedown Transaction" means a primary market sale transaction executed on the first day of trading of a new issue: (a) by a sole underwriter, syndicate manager, syndicate member, selling group member or distribution participant to a customer at the published list offering price for the security (List Offering Price Transaction); or (b) by a sole underwriter or syndicate manager to a syndicate, selling group member or distribution participant (RTRS Takedown Transaction).

The special condition indicator for List Offering Price/Takedown transactions is "M020."

Between July 2019 and May 2021, Janney participated in 391 municipal securities offerings as the sole underwriter, senior manager, co-manager, selling group member, or distribution participant. For all such transactions, Janney failed to append the M020 indicator when reporting List Offering Price and Takedown transactions. As a result, Janney's systems incorrectly reported the time of trade as the time it entered the transactions into its trade reporting system.

As a result, Janney violated MSRB Rule G-14.

b. Janney failed to establish, maintain, and enforce a supervisory system, including WSPs, reasonably designed to achieve compliance with MSRB reporting rules.

MSRB Rule G-27(a) requires brokers, dealers and municipal securities dealers to supervise the conduct of their municipal securities activities to ensure compliance with MSRB rules and federal securities laws.

MSRB Rules G-27(b) and (c) require brokers, dealers and municipal securities dealers to establish and maintain a system, and to adopt, maintain and enforce written supervisory procedures, to supervise its municipal securities activities in a manner that is reasonably designed to achieve compliance with applicable MSRB rules and applicable federal securities laws.

Between July 2019 through May 2021, Janney failed to establish, maintain, and enforce a reasonable supervisory system, including WSPs, to ensure accurate reporting of List Offering Price and Takedown transactions. During that period, the firm had no supervisory system to ensure that the M020 indicator or the times of trade for new issue securities were reported accurately. In addition, the firm's WSPs failed to require any supervisory steps for ensuring that it used the M020 indicator code when necessary.

Beginning in June 2021, Janney undertook steps to correct its reported transactions to include the required M020 indicator and thus the correct times of trade. And in September 2021, Janney updated its WSPs to ensure the M020 indicator code was attached to all new issue transactions and enhanced its training of relevant personnel on RTRS reporting requirements.

As a result, Janney violated MSRB Rule G-27.

II. TRACE-Related Rule Violations

FINRA Rule 6730 (Transaction Reporting) sets out the requirements that apply to firms when reporting transactions in TRACE-eligible securities. TRACE facilitates the mandatory reporting of over-the-counter transactions in certain fixed income securities. Untimely and inaccurate information, including reporting transactions that should not have been reported, can affect the audit trail and result in either false alerts or the inability to detect problematic transactions.

A violation of FINRA Rule 6730 also constitutes a violation of FINRA Rule 2010, which states that "[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade."

a. Janney Failed to report transactions to TRACE.

FINRA Rule 6730(b) provides that members have an obligation to report transactions in TRACE-eligible securities. Failure to report reportable transactions to TRACE is a violation of Rule 6730(b).

From March 2022 through March 2023, the firm failed to report 1,085 transactions to TRACE. Of those, 944 unreported transactions involved primary market corporate bond transactions, which represented 5.5% of the Firm's primary market trading activity in TRACE-eligible securities. The firm failed to report such transactions to TRACE for two reasons. First, the firm failed to correct or re-report certain transactions that were initially rejected by TRACE. Second, in certain instances, the firm's system did not identify certain securities as TRACE-eligible securities, and as a result, Janney did not report trades in those securities to TRACE.

As a result, Janney violated FINRA Rules 6730(b) and 2010.

a. Janney submitted non-reportable transactions to TRACE.

FINRA Rule 6730(a)(6) provides that members have an obligation to report to TRACE transaction information promptly, accurately, and completely. Overreporting transactions to TRACE is a violation of 6730(a)(6).

From March 2022 through March 2023, the firm reported to TRACE at least 75 transactions that were not reportable. Therefore, Janney violated FINRA Rules 6730(a)(6) and 2010.

b. Janney submitted inaccurate information to TRACE.

FINRA Rule 6730(c) provides what information must be reported to TRACE, including the price, quantity, execution time, settlement date, and trade date. Inaccurately reporting any of the required information is a violation of Rule 6730(c).

From March 2022 through March 2023, the firm made 50 inaccurate reports to TRACE: in 18 instances the firm reported an inaccurate trade price; in 15 instances the firm reported an inaccurate trade quantity; in 11 instances the firm reported an inaccurate trade execution time; in four instances the firm reported an inaccurate trade quantity and trade price; in one instance the firm reported an inaccurate trade execution time and trade settlement date; and in one instance the firm reported an inaccurate trade date.

Therefore, Janney violated FINRA Rules 6730(c) and 2010.

c. Janney submitted inaccurate transactions to TRACE by failing to include the No Remuneration indicator.

FINRA Rules 6730(d)(1) and 6730(d)(4)(F) require member firms to include the No Remuneration indicator where a trade report does not reflect either a commission, mark-up, or mark-down. The No Remuneration indicator provides investors and market

participants more meaningful pricing information that better reflects comparable prices for principal and agency trades by identifying those trades where no commission, mark up, or mark-down was charged or known when reported. The No Remuneration indicator is part of publicly disseminated TRACE transaction data.

From March 2022 to October 2023, the firm submitted approximately 30,000 TRACE reports missing the required No Remuneration indicator. Due to a programming error, Janney failed to include the No Remuneration indicator where required on all transactions that were booked and reported with the system during the relevant time period, including U.S. Treasury securities, corporate bonds, agency debt, and securitized products. Janney identified the error in October 2023, immediately corrected it, and self-reported it to FINRA.

As a result, Janney violated FINRA Rules 6730(d)(1), 6730(d)(4)(F), and 2010.

d. Janney failed to establish, maintain, and enforce a supervisory system, including WSPs, reasonably designed to achieve compliance with TRACE reporting rules.

FINRA Rule 3110(a) requires a member firm 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) requires a member firm 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.

From March 2022 to October 2023, Janney failed to establish, maintain, and enforce a reasonable supervisory system, including WSPs, to ensure accurate and complete reporting of transactions in TRACE-eligible securities. Janney's WSPs failed to specify how and when the firm should review and address its exception reports for late, erroneous, or rejected trades. Additionally, the firm's exception reports failed to address common errors in reporting such as trade quantity and trade price. The firm also lacked a system to identify possible overreporting. Finally, the firm did not perform any supervisory review concerning use of the No Remuneration indicator.

Beginning in August 2023, the firm established a working group to enhance its processes and controls related to TRACE reporting, including updating its WSPs. The firm also hired an independent consultant to provide surveillance and to identify deficiencies associated with Janney's trade reporting program.

Therefore, Janney violated FINRA Rules 3110 and 2010.

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

- a censure; and
- a \$150,000 fine (\$65,000 of which pertains to the MSRB violations).

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.

7/28/24
Date

[Signature]
Janney Montgomery Scott LLC
Respondent

Print Name: Arthur Smith

Title: Vice President

Reviewed by:

[Signature]
Paula Shaffner, Esq.
Amy Sparrow, Esq.
Counsel for Respondent
Stradley Ronon Stevens & Young, LLP
2005 Market Street, Suite 2600
Philadelphia, PA 19103-7018

Accepted by FINRA:

7.23.24
Date

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

[Signature]
Myla G. Arumugam
Principal Counsel
FINRA
Department of Enforcement
581 Main Street
Woodbridge, NJ 07095