

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2024081522901**

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

RE: Vanguard Marketing Corporation (Respondent)
Member Firm
CRD No. 7452

Pursuant to FINRA Rule 9216, Respondent Vanguard Marketing Corporation (VMC) 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

VMC has been a FINRA member since 1977. Its principal place of business is in Malvern, Pennsylvania. VMC has approximately 9,600 registered representatives operating out of approximately 175 registered branch locations.

On May 25, 2023, VMC consented to a censure and fine of \$800,000 for violating FINRA Rules 2210, 3110, 4511 and 2010. FINRA found that VMC provided inaccurate projected yield and projected annual income for certain money market funds and inaccurately presented market appreciation/depreciation and investment returns in account statements. FINRA also found that the firm failed to reasonably investigate red flags of these overstatements, and it maintained inaccurate books and records.¹

OVERVIEW

Investors rely on the accuracy of account statements and trade confirmations when making financial decisions and on the accuracy of Forms 1099 when calculating taxes owed. From approximately 2012 to 2023, a series of technical issues caused VMC to

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

communicate inaccurate information to customers relating to the cost basis of their investments in account statements, trade confirmations, and in Forms 1099 in violation of FINRA Rules 2210, 4511 and 2010. VMC failed to reasonably investigate red flags relating to the inaccurate information on these documents in violation of FINRA Rules 3110 and 2010. For these violations, VMC is censured and fined \$950,000.

FACTS AND VIOLATIVE CONDUCT

This matter originated from VMC's self-report made pursuant to FINRA Rule 4530(b).

A. VMC communicated inaccurate cost basis information in account statements, trade confirmations, and Forms 1099.

1. Applicable FINRA rules.

FINRA Rule 2210 addresses FINRA member communications with the public and includes content standards that apply to all member firm communications as well as filing and record-keeping requirements. FINRA Rule 2210(d)(1)(B) states in relevant part that no member may make any false or misleading statement or claim in any communication. Including misleading or false information on account statements, trade confirmations, and Forms 1099 violates FINRA Rule 2210(d)(1)(B). A violation of FINRA Rule 2210 is also a violation of FINRA Rule 2010, which requires member firms, in the conduct of their business, to observe high standards of commercial honor and just and equitable principles of trade.

FINRA Rule 4511 requires member firms to "make and preserve books and records as required under the FINRA rules, the Exchange Act and the applicable Exchange Act rules." Account statements and trade confirmations are required records. Inherent in the requirement to make and preserve books and records is the requirement that information in those books and records be accurate. A violation of FINRA Rule 4511 is also a violation of FINRA Rule 2010.

2. VMC reported inaccurate cost basis for certain customer account statements, trade confirmations, and Forms 1099.

"Cost basis" is the original purchase price of a security, including reinvested dividends or reinvested capital gains distributions, plus any commissions and fees, multiplied by the quantity of shares purchased at that price. During the relevant period, VMC reported or reflected cost basis in several fields on account statements, trade confirmations, and Forms 1099. These fields were intended to allow customers to track their investments' performance, calculate gains or losses, and file accurate tax returns.

From approximately 2012 to 2023, technological issues, including involving a third-party vendor, caused VMC to inaccurately report cost basis for certain positions to certain customers in three ways.

a. Rollback Reruns

A customer's position in a security may consist of multiple tax lots, i.e., sets of shares acquired on different dates and at different prices. Each lot has its own cost basis and acquisition date. Tax regulations prescribe the methods of inventory-relief accounting applicable to sales of multi-lot positions, often referred to as "lot relief methods," as they determine which lot's shares and cost basis are applied when a customer sells a portion of a multi-lot position. Because each lot contains a finite number of shares, a lot's shares can be relieved only once, regardless of lot relief method.

VMC occasionally received information concerning the cost basis of lots in a customer's multi-lot security position after selling a portion of that position. In such instances, VMC's vendor automatically reprocessed the customer's entire position as if the new data had always been in the system. This was referred to as a "rollback rerun." Under certain circumstances, the rollback rerun was inconsistent with the customer's actual transaction history and could erroneously reflect that a customer had sold a different lot than the one actually sold previously. This also permitted customers to "reuse" the cost basis of the previously sold lot. The rollback reruns therefore caused the reporting of inaccurate cost and gain/loss information on account statements, trade confirmations, and Forms 1099.

In approximately 6,000 transactions, the rollback reruns also caused the vendor to change or disregard customers' instructions regarding the specific lots to be sold. In these instances, the specific sold lots and associated cost bases were overwritten with inaccurate cost basis information from another lot that would have been selected had the customer been using a different lot relief methodology. This also resulted in inaccurate account statements, trade confirmations, and Forms 1099, as well as customers overpaying or underpaying taxes.

b. Share Class Conversion

A mutual fund or ETF position may convert from one share class to another under certain circumstances, including if the customer's total cumulative investment in that mutual fund or ETF exceeds a specified threshold. In certain instances, these conversions resulted in VMC reporting inaccurate cost basis information for these positions.

In most cases, a share class conversion is automatic, but, in some instances, VMC manually processed the conversion. During the relevant period, when VMC personnel manually converted shares of multiple mutual funds to different share classes on the same day in the same account, VMC assigned the same transaction identification number to all of the converted shares. Because the vendor used the transaction identification number to map cost basis to each position, it was unable to differentiate between the positions, and it applied cost bases across the funds with the same transaction identification number. This issue, which affected approximately 200 accounts, caused inaccurate cost basis information to be reported on approximately 8,500 account statements, and, where there was a subsequent sale, trade confirmations and Forms 1099.

VMC also, in certain instances, reported inaccurate cost basis information for automated share class conversions. Specifically, VMC applied a single transaction identification number so the vendor also applied cost basis across funds when: (i) the customer had separate cash and margin positions for the same fund, (ii) third party funds offered through a VMC program were converted, or (iii) the share class conversion was cancelled and rebooked with an "as of" date. These issues affected approximately 3,000 accounts and also resulted in inaccurate cost basis information to be reported on account statements, trade confirmations and Forms 1099 where there was a subsequent sale.

c. Position Breaks

During the relevant period, VMC's stock record and the vendor's systems each rounded to a different number of decimal places to calculate customers' quantity of shares. The result was that, in some instances, the two systems reported a different quantity of shares held by a customer. This was referred to as a position break. Where there was a position break, VMC account statements reported cost basis information calculated from a different share quantity than reflected in the firm's stock record.

This issue affected approximately 150,000 positions in 100,000 accounts and up to 5.7 million account statements. The position breaks affected the cost basis VMC reported to customers. Almost all of these differences were of less than 1 share and they did not affect the quantity of shares customers actually owned or the execution of their trades.

Therefore, VMC violated FINRA Rules 2210(d)(1)(B), 4511 and 2010.

B. VMC failed to reasonably investigate red flags that its account statements, trade confirmations and Forms 1099s were misleading.

FINRA Rule 3110(a) requires each 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. A firm's duty of supervision includes the responsibility to reasonably investigate red flags that suggest that misconduct may be occurring. A violation of FINRA Rule 3110(a) is also a violation of FINRA Rule 2010.

During the relevant period, at least 25 customers complained in writing to VMC concerning the issues discussed above, including 18 complaints about the position-break issue, seven complaints about the rollback-rerun issue, and one complaint about the share-class-conversion issue. VMC was also aware of the position-break issue because it prepared a periodic position-break report and corrected position breaks when there was a tax-realization event. However, VMC did not investigate whether account statements before realization events accurately reflected customers' cost basis. Likewise, VMC was aware that the vendor sometimes overwrote a customer's transaction history through rollback reruns but did not systematically address the issue until it conducted a comprehensive investigation of these issues in 2023, at which time it implemented new controls to address the issues set forth in this AWC.

Because VMC failed to establish and maintain a reasonable system to supervise cost-basis reporting on customers' account statements, trade confirmations, and Forms 1099, the firm violated FINRA Rules 3110(a) and 2010.

SANCTIONS CONSIDERATIONS

In determining the appropriate sanctions in this matter, FINRA considered, among other factors, that, after discovery of the technical issues described above, VMC took substantial steps to enhance its systems—including by implementing new controls and documentation around known systems issues, hiring additional personnel and management to oversee cost basis reporting functions, and undertaking an extensive internal review for other potential cost basis issues, which they then addressed. VMC also proactively identified the rollback rerun issue to FINRA staff after the investigation was underway. In addition, the firm retained an outside consultant to assist with quantifying the harm to customers and voluntarily paid approximately \$1.9 million in remediation to customers that may have overpaid taxes (inclusive of time-out-of-market costs), were required to incur costs to refile past returns, or otherwise needed to consult with a tax professional to assess the impact of the issues discussed above.

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

- a censure; and
- a \$950,000 fine

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. FINRA's Finance Department will contact Respondent regarding payment. 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 become 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:

- C. To have a complaint issued specifying the allegations against it;

- D. To be notified of the complaint and have the opportunity to answer the allegations in writing;
- E. 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
- F. 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.

9/22/2026
Date

Andrew Kadjeski
Vanguard Marketing Corp.
Respondent

Print Name: Andrew Kadjeski

Title: President and CEO

Reviewed by:

Susan Schroeder
Susan Schroeder, Esq.
Counsel for Respondent
WilmerHale
7 World Trade Center
250 Greenwich Street
New York, New York 10007

Accepted by FINRA:

9/23/2026
Date

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



Mark S. Geiger
Senior Counsel
FINRA
Department of Enforcement
101 N. Wacker Dr., Suite 2200
Chicago, IL 60606