

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2012035224301**

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

RE: Merrill Lynch, Pierce, Fenner & Smith Inc., Respondent
Member Firm
CRD No. 7691

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Merrill Lynch, Pierce, Fenner & Smith Inc. ("Merrill Lynch" or the "Firm") 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 it alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Merrill Lynch hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Respondent Merrill Lynch is a global investment banking and multi-service brokerage firm that provides, among other things, retail brokerage and wealth management services. Merrill Lynch has (since 2009) been a wholly-owned subsidiary of Bank of America Corporation ("BAC") with its principal place of business in New York, New York. Merrill Lynch is registered with the Securities and Exchange Commission as a broker-dealer and has been a FINRA-regulated firm since January 26, 1937. It has more than 33,000 registered individuals in more than 3,100 branch offices, servicing tens of millions of customers. During 2013, Merrill Lynch customers moved more than \$547 billion in funds into and out of Merrill Lynch brokerage accounts.

RELEVANT DISCIPLINARY HISTORY

On July 26, 2011, pursuant to AWC No. 2009020383001, Merrill Lynch was censured and fined \$400,000 by FINRA for failing to enforce its anti-money laundering compliance program and written procedures by accepting third-party

checks for deposit into a customer's account which, contrary to the procedures, did not identify that customer by name. As a result, one of its customers, a registered representative at another member firm, was able to move over \$9 million of misappropriated funds through his Merrill Lynch cash management brokerage account.

OVERVIEW

As described below, at various relevant times, Merrill Lynch's implementation of certain systems and procedures that comprise its anti-money laundering (AML) program related to retail brokerage accounts suffered from numerous deficiencies.

Merrill Lynch used an automated monitoring system called Mantas as a central part of its AML program to monitor for potentially suspicious activity in Merrill Lynch brokerage accounts. In approximately October 2010, the Firm connected Mantas to a BAC enterprise-wide, proprietary system called "Event Processor" or "EP." Thereafter, Mantas generated events related to potentially suspicious activities and fed these events into Event Processor, and Event Processor grouped Mantas events with other events generated by other monitoring systems into "Event Groups." Each Event Group was scored based on the AML risk posed by the events or customer types identified; if the total score for an Event Group reached a certain risk-based threshold, the Firm opened an investigation of the potentially suspicious activity.

For a four-month period (September 19, 2011 until January 31, 2012), Merrill Lynch did not investigate suspicious activity detected only by Mantas. By 2011, the Firm believed that system was producing too many "false positives" and determined to change how the system generated and scored Mantas events and investigated potentially suspicious activity. In September 2011, the Firm decided to not investigate Event Groups generated only from Mantas events while it implemented the changes. The Firm did not start reviewing such Event Groups until February 2012.

Merrill Lynch also decided not to review (a) hundreds of Mantas alerts that had been generated by the automated surveillance system since May 2011 but not reviewed prior to September 2011 and (b) certain alerts in Merrill Lynch accounts that occurred from September 2011 to January 2012. As a result of these decisions, Merrill failed to investigate 1,015 instances of potentially suspicious activity at that time.

In addition, how the Firm scored certain events in its automated surveillance system minimized potentially suspicious activity or prevented such activity from being reviewed. For example, based on flawed analysis, Merrill Lynch determined to score multiple occurrences of potentially suspicious money movements involving high risk counterparties and entities once. Until 2015, it did not link related accounts for some of Merrill Lynch's highest risk customers and

did not consistently identify or monitor customers in certain high risk jurisdictions or senior foreign political figures who were opening or conducting transactions through Merrill Lynch accounts.

Finally, prior to May 2015, Merrill Lynch excluded millions of accounts from its automated monitoring system and therefore failed adequately to monitor the accounts for potentially suspicious activity. These accounts included retirement accounts, certain securities-based loan accounts and the accounts pledged to them, and certain managed accounts whose investments were not controlled by the beneficial owner.

As a result of each of these deficiencies, Merrill Lynch failed to have systems and procedures reasonably designed to monitor for, detect, and report suspicious activity. Accordingly, Merrill Lynch violated FINRA Rules 3310(a) and 2010.

FACTS AND VIOLATIVE CONDUCT

Background

Through its retail brokerage accounts, Merrill Lynch offers traditional investment services such as buying and selling securities. In certain types of retail brokerage accounts, Merrill Lynch offers wire transfers, checking, ATM currency deposits and withdrawals, and ACH transfers as well. These transactions present money laundering risks not typically associated with brokerage accounts that do not offer bank-like services.

AML monitoring and investigations is an enterprise-wide function at BAC. For example, although an AML detection channel focuses on brokerage-account activity, events triggered by that detection channel can lead to investigations of customers across the enterprise; similarly, AML detection channels focusing on consumer bank accounts can lead to investigations of related brokerage accounts.

Before October 2010, Merrill Lynch used a system called Mantas as its primary automated monitoring tool to detect potential money laundering activity. Mantas generated alerts based on specified scenarios adopted by Merrill Lynch, such as rapid movement of funds or internal journal-entry transfers between unrelated accounts. Different types of alerts were assigned different scores based on the perceived AML risk of the activity, and when alerts reached a predetermined total score, Merrill Lynch staff reviewed the alerts to determine whether the activity in the account warranted further investigation that could lead the Firm to file a suspicious activity report (SAR) with the Financial Crimes Enforcement Network (FinCEN).

In January 2009, BAC acquired Merrill Lynch. In October 2010, as part of its integration of legacy BAC and Merrill Lynch AML compliance programs, BAC incorporated Mantas into an enterprise-wide, proprietary system called Event

Processor. Mantas events were combined into Event Groups with events (generated by Mantas or other AML detection channels) that had previously arisen over the past 13 months in the same or related accounts at Merrill Lynch or elsewhere in BAC. The Event Groups were scored based on the AML risk posed by the activity and customers identified in the Group. When an Event Group reached a predetermined risk-based threshold, the Event Group was promoted to an investigation to be reviewed by staff. If an Event Group did not reach the requisite threshold, no analyst or investigator would necessarily review the Event Group and potentially suspicious activity identified by that Event Group could go undetected.

The Firm Failed to Implement Adequate Systems and Procedures to Detect and Cause the Reporting of Certain Potentially Suspicious Transactions

The Firm Prevented the Investigation of Potentially Suspicious Activity Based Solely on Mantas Events

By 2011, the Firm, based on its own analysis, believed the Mantas system was generating too many “false positives” – investigations arising solely from Mantas alerts that did not result in the filing of SARs. The Firm’s initial solution was to change the way Mantas events were generated, scored, and investigated. In September 2011, Merrill Lynch decided, while those changes were being implemented, not to open any investigations on Event Groups that solely consisted of Mantas events. Therefore, Event Groups generated only from Mantas events would not trigger additional review; EP opened a case only if an Event Group contained at least one event from a detection channel other than Mantas and reached the investigative threshold described above.

At the time of this decision, the most senior AML risk governance committee at Merrill Lynch expected that impacted Mantas events would be reprocessed into EP (and rescored) after the completion of the relevant changes to the way Mantas events were generated and scored. On December 5, 2011, a junior Merrill Lynch governance committee determined not to re-ingest and rescore Mantas events but instead to retire all open Mantas events, effectively contravening the approach adopted by the senior AML risk governance committee, without reengaging that committee in the discussion.

The Firm did not complete the changes to the way Mantas events were generated, scored, and investigated until January 31, 2012. Therefore, for over four months, events generated by Merrill Lynch’s primary automated system to monitor money movement activity in brokerage accounts did not result in investigations unless some other BAC AML detection channel also produced an event that was grouped with the Mantas event.

Merrill Lynch did not re-open 646 pre-existing Mantas-only investigations, did not rescore the Mantas events occurring prior to January 2012 under the old or new criteria, and did not include Mantas events generated prior to the end of

January 2012 in Event Processor scores going forward. In all, the Firm did not investigate 1,015 Event Groups that would have been investigated during the period that it altered the scoring of Mantas events. The Firm only reviewed these events in 2014, after the investigation that led to this settlement had begun.

The Firm's Scoring System in EP Minimized Potentially Suspicious Activity

As described below, in certain respects Event Processor minimized certain potentially suspicious activity or prevented other such activity from being detected and reported.

Failure to recognize multiple events in an Event Group

The Firm only scored multiple occurrences of the same type of event once for two high-risk transaction detection scenarios. In making this scoring decision, Merrill Lynch's analysis insufficiently evaluated the increased money laundering risk of repetitive behavior. Therefore, an account with a single occurrence of a potentially suspicious transaction would have the exact same scoring as an account in which the same type of transaction occurred repeatedly.

As a result, Merrill did not identify and investigate potentially suspicious activity relating to certain high-risk counterparties and entities. For example, an account opened by a purported electronics importer based in Venezuela (which the Firm designated as a high risk jurisdiction) sent and received multiple wires from other high risk jurisdictions and questionable individuals. Among those transactions were wires to and from employees of the Syrian embassy in Venezuela and wires sent to a Venezuelan military general accused in media reports of accepting bribes from a known drug trafficker. Nevertheless, these wires resulted in only one scored event. Therefore, this activity was not investigated.

Failure to link accounts under same beneficial ownership for scoring purposes

Event Processor was intended to provide the Firm with a complete view of the customer relationship by linking related accounts for scoring purposes within Event Processor. During the relevant period, however, Event Processor did not group events from certain related accounts in certain circumstances, including related accounts for customers of Merrill Lynch's "international" branch offices, those branches conducting business almost exclusively with foreign clientele.

In certain instances, accounts of the Firm's "international" branch offices with the same name, at the same address, or under common ownership were not linked in Event Processor. In addition, EP could not link related accounts maintained in different currencies (such as U.S. dollars and Mexican pesos) by the same

beneficial owner. Thus, activity that would have resulted in an investigation had it been scored together did not reach the requisite score and was not investigated.

Failure to adequately account for money laundering risk of certain types of customer accounts

The Firm realized that certain types of customers presented heightened AML risk and, accordingly, Event Processor incorporated an additional customer risk score to every Event Group for such customers. However, this risk score was not applied on a consistent basis for some of the Firm's highest risk customer accounts. For example, customers in certain high risk jurisdictions and senior foreign political figures who were opening or conducting transactions through Merrill Lynch accounts were supposed to have this additional customer risk score incorporated into each Event Group generated by their activity. This additional customer risk score, however, was not consistently added to Event Groups for such customers of the Firm's "international" and non-resident client branch offices. As a result, activity by certain high risk customers resulted in lower Event Group scores and such activity was not investigated.

The Firm Failed to Adequately Monitor Certain Accounts for Potentially Suspicious Activity

From approximately 2006 through approximately May 2015, Merrill Lynch failed to include certain accounts in its Mantas monitoring system. The excluded accounts were retirement accounts, certain managed accounts (including Merrill Lynch's Consults and Personal Investment Advisory accounts), and certain accounts involving securities-based loans and the accounts pledged as collateral to them. In 2012, the Firm realized these accounts had not been monitored by Mantas, but decided not to incorporate them because it believed the accounts were at lower risk for money laundering activity.

These accounts in fact experienced significant money movements. During 2013, more than \$22 billion was moved into and out of retirement accounts in approximately 2.5 million transactions. Approximately \$6 billion was moved into and out of personal advisory accounts or accounts managed by third parties in 2013 in more than 400,000 transactions, and more than \$35 billion moved into and out of securities-based loan accounts and the accounts pledged to them in more than four million transactions. As of February 2015, there were approximately 4.2 million retirement accounts, 228,000 personal advisory accounts and accounts managed by third parties, and 421,000 securities-based loan accounts and accounts pledged to them held at Merrill Lynch.

Because of the Deficiencies in the Firm's Systems and Procedures Associated with its AML Program, Merrill Lynch Failed to Detect and Investigate Potentially Suspicious Activity

Due in large part to the deficiencies in the operation of the AML monitoring systems for Merrill Lynch retail brokerage accounts identified above, the Firm failed to detect or investigate certain potentially suspicious activity in retail brokerage accounts maintained for non-resident aliens at "international" and non-resident client branches near the U.S.-Mexico border, specifically branches in Texas (McAllen) and California (San Diego), as well as a branch in New York City that primarily serviced accounts for non-U.S. citizens domiciled outside the United States. The firm also failed to adequately investigate potentially suspicious activity involving customers in the firm's Miami branch who were taking out loans from Merrill affiliates, including one in the Cayman Islands.

Potentially Suspicious Activity in the McAllen, Texas Branch

The McAllen, Texas branch had almost 3,000 active accounts during the period September 2011 through July 2012. Approximately 500 of those accounts had wire movement activity during that time period, and some had no securities transactions. There were more than 1,600 incoming and outgoing wire transfers in these accounts, including transfers to or from such high risk jurisdictions as Russia, Zambia, Mexico, and China. There were cash withdrawals totaling more than \$1 million, and almost 1,200 journal-entry fund transfers into customer accounts totaling \$80 million. Certain of the money movements in the McAllen branch were potentially suspicious.

A Mexican citizen, ER, who had alleged ties to Mexican drug cartels and numerous Mexican politicians, maintained nine accounts at the Texas branch, including one in the name of a New Zealand-based trust with a mailing address in Switzerland. Because the Firm did not link these accounts in Mantas, it failed to detect and investigate potentially suspicious activity that occurred in more than one of these accounts, including wire transfers and money movements to and from third party accounts. During the period September 2011 until July 2012, the trust account received a wire transfer of more than \$262,000 from another trust with an address in Switzerland, and wired out almost \$50,000 to third parties. Two of the accounts owned by ER received a total of more than \$10 million from third-party entities and wired out a total of more than \$12 million to third party entities. Further, ER journaled over \$7 million among his accounts. ER's accounts triggered numerous events that the Firm did not investigate because it did not link the accounts in Mantas and because many of the events occurred during the period September 2011 to January 2012, when the Firm did not investigate Mantas-only Event Groups.

Potentially Suspicious Activity in the San Diego Branch

The San Diego branch had more than 1,880 active accounts during the period September 2011 through July 2012. Of those accounts, at least 116 had wire movement activity, including 79 accounts in which there were no securities transactions. There were more than 1,660 incoming and outgoing wire transfers, including transfers to or from high risk jurisdictions such as Lebanon, Panama, Mexico, Venezuela, China, Philippines, Syria, Egypt, Peru, Haiti, and Ecuador. There were cash withdrawals totaling more than \$2.3 million, and more than 2,400 cash journals between customer accounts (including journals sent or received between a customer of the branch and customers of other branch offices) totaling \$154 million. As with the activity in the McAllen, Texas branch, much of this money movement was potentially suspicious.

Among the accounts that had potentially suspicious money movement was one held by a Venezuelan national, MM, and another in the name of a corporation he owned with another individual. Merrill Lynch failed to link these accounts in EP. Moreover, and contrary to statements in the account opening documents, neither account had any securities transactions between September 2011 and July 2012, during which time the two accounts sent and received a total of 115 wire transfers totaling approximately \$3.7 million. There were at least six wires to high-risk third parties received into and sent from MM's personal account, including wire transfers to and from foreign embassies and ambassadors, and wire transfers to a foreign military official who has been linked in news reports to an individual wanted by the U.S. for drug trafficking and money laundering.

These numerous transfers to the high-risk counterparties generated only one scored event for each account because the Firm did not separately score similar, subsequent events and because many occurred during the period September 2011 to January 2012. Therefore, these potentially suspicious money movements were not investigated.

The same San Diego branch maintained two accounts for a money lender in Mexico, one for U.S. dollar transactions and one for Mexican peso currency transactions. The Firm failed to link these accounts in EP. From September 2011 through July 2012, there were a significant number of wire transfers, totaling more than \$1.75 million in the dollar-based account, and approximately 43.6 million in Mexican pesos (approximately \$3.25 million) in the other account.

The activity in the U.S. dollar account for this customer generated one Event Group, which was investigated and closed with no further action. The activity in the Mexican currency account did not generate enough events to trigger an investigation, and since the account was not linked to the U.S. dollar account, the activity in the account was not considered as part of the investigation of the case in the U.S. dollar account.

Another corporate customer of the San Diego office transacted a number of wire transfers with other accounts at Merrill Lynch and elsewhere between 2010 and 2011. A registered representative of Merrill Lynch used this account and others to operate a “black market” currency exchange to circumvent restrictions on exchanging Venezuelan currency for U.S. dollars. Venezuelan residents deposited funds into a bank account controlled by an individual who maintained numerous accounts with the San Diego branch, including one account in the name of an import/export company which was allowed under Venezuelan law to convert currency in order to conduct its business. The participants in the scheme moved funds into one of the accounts they controlled at Merrill Lynch and then transferred the funds out into a U.S. bank account controlled by one of the representative’s colleagues. The funds were then sent back to the Venezuelan resident as U.S. dollars. The operators of the program profited by using a very favorable exchange rate, far in excess of the going rates. The Merrill Lynch accounts utilized in this program received in and wired out a total of more than \$56 million.

This suspicious activity occurred for almost two years before Merrill Lynch detected or investigated it. The accounts generated a number of Mantas events, such as those for high-risk entity transactions and excessive ATM withdrawals. Although most of these events were reviewed by an analyst before Mantas events were incorporated into EP, no investigations were opened. In addition, the accounts generated a number of Event Groups between September 2010 and December 2011, four of which resulted in investigations that were closed.

Potentially Suspicious Activity in the New York Office

Merrill Lynch maintained an office in New York City that primarily serviced accounts for non-resident aliens. One registered representative in that office serviced accounts held by Indian nationals living both in India and the United States. The representative instructed customers to establish trust accounts in corporate names instead of their actual names and arranged for off-shore Merrill Lynch-affiliated entities to act as trustees for the accounts.

Between 2002 and 2011 approximately \$8 million was transferred among ostensibly unrelated accounts belonging to this representative’s clients and from his clients’ accounts to third parties. Some of these transfers appeared not to have been authorized by the clients. One account alone had 47 separate journal transfers to or from apparently unrelated accounts. The activities in the customer accounts generated numerous Mantas events during the same period, but were not investigated. Merrill Lynch did not identify the transfers as potentially suspicious and failed to investigate the representative’s activities until it received customer complaints alleging the representative engaged in unauthorized transfers, deposits, and credit line facilities.

Violations of FINRA Rules 3310(a) and 2010

FINRA Rule 3310 requires each FINRA member to “develop and implement a written anti-money laundering program reasonably designed to achieve and monitor the member’s compliance with the requirements of the Bank Secrecy Act . . . and the implementing regulations promulgated thereunder by the Department of the Treasury.” The program must, at a minimum, “[e]stablish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) and the implementing regulations thereunder” FINRA Rule 3310(a). Broker-dealers are specifically required to report suspicious activity pursuant to 31 C.F.R. §1023.320. The Treasury Department has advised broker-dealers to determine whether activity raises suspicions by monitoring for various “red flags,” and Notices to Members 02-21 and 02-47 emphasize members’ duties to detect “red flags” and, if detected, to perform additional due diligence before proceeding with a suspicious transaction.

A broker-dealer may, as Merrill Lynch did here, combine its AML monitoring program with that of an affiliated entity. In April 2002, Special Notice to Member 02-21 stated that “each financial institution should have the flexibility to tailor its AML program to fit its business.” If a firm does so, however, it must ensure that the procedures are designed to take into account the particular risk factors applicable to the business of the broker-dealer as well as the business of the affiliated entity.

As described above, Merrill Lynch failed to implement adequate systems and procedures as part of its AML program and, accordingly, violated FINRA Rules 3310(a) and 2010.

B. Merrill Lynch also consents to the imposition of the following sanctions:

- (1) A censure; and
- (2) A fine of \$13 million.

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 that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

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 acceptance or rejection of this AWC.

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 it; and
- C. If accepted:

1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;
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 the subject matter thereof 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 its: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- 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 or its staff.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on its 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 its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce Respondent to submit it.

December 23, 2016

Date

Respondent
Merrill Lynch, Pierce, Fenner & Smith Inc.

Mark L. Keene

Mark Keene
Associate General Counsel

Reviewed by:



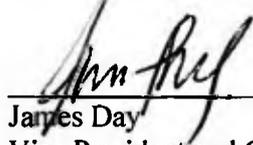
Michael J. Leotta
Boyd M. Johnson III
Counsel for Respondent
WilmerHale
1875 Pennsylvania Avenue, NW
Washington, DC 20006
(202) 663-6000

Accepted by FINRA:

12/21/17

Date

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



James Day
Vice President and Chief Counsel
FINRA Department of Enforcement
15200 Omega Drive
Rockville, MD 20850-3241
(301) 258-8520

This Corrective Action Statement is submitted by the Respondent, Merrill Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch”). It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

**STATEMENT OF CORRECTIVE ACTION
BY MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED**

As a corrective action, Merrill Lynch has already remediated the issues described above as follows:

- (1) Re-ingestion of Mantas Events. In approximately 2014 and 2015, Merrill Lynch reviewed all of the Mantas events whose scores had been affected by the Fall 2011 scoring decisions, including those that were part of the Mantas-event-only cases that were suspended in September 2011. This resulted in approximately 1,015 Event Groups to be investigated. Merrill Lynch filed seven SARs on transactions from that historical period.
- (2) Scoring Multiple Alerts in an Event Group. In June 2015, scoring of the High Risk Transactions: Focal High Risk Counterparty and High Risk Transactions: Focal High Risk Entity detection scenarios was changed back to event-level scoring. In addition, in 2015, Merrill Lynch enhanced 16 detection scenarios running in a different automated detection channel (referred to as ADCP) to monitor Merrill Lynch retail brokerage accounts for potentially suspicious activity. Several of these ADCP detection scenarios were subsequently combined, and another was added. As of May 2016, in addition to Mantas retail scenarios, the 15 ADCP detection scenarios monitor Merrill Lynch brokerage accounts. The risk-based threshold for when an Event Group goes to case has been and continues to be statistically validated.
- (3) Account Linkages. Event Processor (EP) used a number of systems and techniques to group events arising from related retail brokerage accounts. Furthermore, since August 2015, EP has been able to link accounts and group events appropriately, including events arising out of a customers’ U.S. dollar- and foreign currency-denominated accounts and events arising out of accounts at the firm’s “international” branch offices.
- (4) Customer Risk Scoring. In or around 2012, the firm began adding a customer risk score to all customers who were Senior Political Figures (including Senior Foreign Political Figures), and Event Groups belonging to Senior Foreign Political Figures now receive an additional customer risk score.
- (5) Monitoring of Certain Accounts. Beginning in approximately May 2015, Merrill Lynch began monitoring retirement accounts, managed accounts, securities-based loan accounts, and accounts pledged as collateral to them with Mantas. In the year since those accounts began to be monitored by Mantas, investigative cases opened as a result of these Mantas events yielded only a single SAR, resulting in a SAR yield of about 1.7% compared to the enterprise-wide SAR yield in 2015 of about 47%.