

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2014041619501**

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

RE: Sterne, Agee & Leach, Inc., Respondent
Member Firm
[CRD No. 791]

Pursuant to FINRA Rule 9216 of FINRA’s Code of Procedure, Sterne, Agee & Leach, Inc. (“Sterne Agee” 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. Respondent Sterne Agee 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

Sterne Agee has been a member of FINRA since October 16, 1936. The Firm is based in Birmingham, Alabama and has 47 branches. Sterne Agee currently employs approximately 739 registered individuals. It is approved to conduct business in corporate securities (including debt securities and underwriting), equities, government securities, mutual funds, municipal securities, internet/online and day trading accounts, options, variable contracts, and private placements.

RELEVANT DISCIPLINARY HISTORY

The Firm has no relevant disciplinary history.

OVERVIEW

Sterne Agee failed to establish and maintain a supervisory system reasonably designed to safeguard confidential customer information. There were insufficient supervisory procedures to ensure that the Firm's "most sensitive" customer and proprietary information stored on laptops were being adequately safeguarded by appropriate technology. As a result, Sterne Agee violated Regulation S-P of the Securities Exchange Act of 1934 (Regulation S-P, 17 C.F.R. §248.30), NASD Conduct Rule 3010 and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Inadequate Protection of Personal and Confidential Information of Customers

Rule 30 of SEC Regulation S-P provides that “[e]very broker, dealer...must adopt written policies and procedures that address administrative, technical, and physical safeguards for the protection of customer records and information. These written policies and procedures must be reasonably designed to: (1) insure the security and confidentiality of customer records and information; (2) protect against any anticipated threats or hazards to the security or integrity of customer records and information; and (3) protect against unauthorized access to or use of customer records or information that could result in substantial harm or inconvenience to any customer.”

From March 2009 to June 2014, Sterne Agee’s written supervisory procedures (“WSPs”) were not reasonably designed to protect confidential customer and proprietary information. On May 29, 2014, the personal and confidential information of 352,551 customers was placed at risk when an Information Technology employee of the firm inadvertently left an unencrypted laptop in a restroom and it was lost. The lost laptop is believed to contain two highly sensitive files: (1) a file of account numbers, names and addresses of clients with the Sterne Agee Private Client Group in Birmingham, Montgomery, and Mobile, Alabama gathered to send a notice of recent management changes; and (2) a file that contained account numbers, client names, client addresses, and tax identification numbers for all accounts opened or closed on Sterne Agee systems from 1992 to June 20, 2013, including client accounts of correspondent firms of Sterne Agee’s clearing entity.

At the time the unencrypted laptop was lost, Sterne Agee’s WSPs provided for the Adoption of Information Security Policy and Standards containing policies relative to data management, access controls, confidentiality and integrity, infrastructure, acceptable use, threat and vulnerability management and education and awareness. However, Sterne Agee’s Information Security Policy and Standards did not require encryption of laptop hard drives. In March 2009, the Firm had recognized the need for encryption of laptops, but considered it a “moderate risk” due to a low laptop count. On April 26, 2010, the Firm approved

an Information Security Program Charter, but it did not require the encryption of laptops. As the number of laptops increased, however, so did the risk of not implementing encryption. In 2010, the Firm purchased Microsoft Enterprise Agreement software, which included a product called "BitLocker," to encrypt laptops. However, the Firm required additional personnel to implement the new software, including for encryption, and management did not authorize the additional funds until approximately 2012. When two additional security analysts were hired in 2012 and they attempted to implement BitLocker, it was found to be incompatible with the Firm laptops. Employee turnover subsequently delayed the Firm's identification of an encryption solution. During the Third Quarter of 2013, a new encryption solution was proposed and funding was requested to outsource intrusion detection and data-loss prevention services, which included laptop encryption. However, management did not approve this funding until June 2014, following the unencrypted laptop loss.

FINRA Regulatory Notice 05-49 provides guidance regarding safeguarding confidential customer information. The Firm's systems were inadequate in light of specific directions and considerations enumerated in the Regulatory Notice, including "whether the member's existing policies and procedures adequately address the technology currently in use," and "whether the member has taken appropriate technological precautions to protect customer information." Here, the Firm's WSPs did not adequately address the technology in use, specifically, laptops, and the Firm failed to take appropriate technological precautions to protect customer and highly sensitive information. There were no WSPs to ensure that the Firm's most sensitive customer and proprietary information stored on laptops were being adequately safeguarded by appropriate technology, such as encryption.

Sterne Agee's failure to adopt WSPs reasonably designed to insure the security of customer information placed sensitive customer information at risk. The Firm did not implement sufficient supervisory systems and WSPs requiring the encryption of laptops until June and July, 2014. This placed the personal and confidential information of 352,551 at risk on May 29, 2014 when an unencrypted laptop containing that information was lost.

As a result of the foregoing conduct, Respondent Sterne Agee violated Regulation S-P of the Securities Exchange Act of 1934 (Regulation S-P, 17 C.F.R. §248.30) NASD Conduct Rule 3010 and FINRA Rule 2010.

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

- 1) Censure;
- 2) A fine of \$225,000; and
- 3) Sterne Agee shall conduct an internal review of the adequacy of its policies, systems and procedures (written and otherwise) and training relating to compliance with Regulation S-P of the Securities Exchange Act of 1934 (Regulation S-P, 17 C.F.R. §248.30) and, within 60 calendar days of the issuance of this AWC, an officer of Sterne Agee shall certify to FINRA in writing that Sterne Agee has conducted the described internal review and that, as of the date of the certification, Sterne Agee has in place adequate written supervisory procedures that (1) address compliance with Regulation S-P and (2) correct the specific violations described in this AWC. This certification must be submitted to the undersigned and shall be accompanied by a description of the reviews and revisions undertaken by Sterne Agee.

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

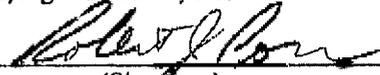
FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- 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 Sterne, Agee & Leach, Inc., 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; 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 Sterne, Agee & Leach, Inc. to submit it.

05/15/15
Date (mm/dd/yyyy)

Sterne, Agee & Leach, Inc.

By: 
(Signature)

Name: Robert J. Come
(Print Name)

Title: CFO

Reviewed by:

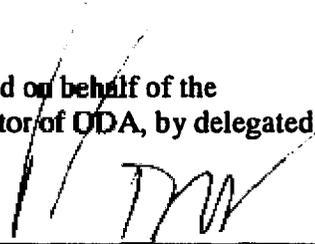

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Accepted by FINRA:

May 22, 2015

Date

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



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