

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2015043740201**

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

RE: Wells Fargo Advisors, LLC,
(n/k/a Wells Fargo Clearing Services, LLC)
Respondent Member Firm
CRD No. 19616

Wells Fargo Advisors Financial Network, LLC, Respondent
Member Firm
CRD No. 11025

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondents Wells Fargo Advisors, LLC ("WFA") (n/k/a Wells Fargo Clearing Services, LLC) and Wells Fargo Advisors Financial Network, LLC ("WFAFN") (together "Respondents" or the "Firms") submit 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 Respondents alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondents hereby accept and consent, 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

WFA maintains its principal place of business in St. Louis, Missouri. It is a full-service broker-dealer and became a FINRA-registered firm in 1987. WFA has nearly 27,000 registered representatives located in over 7,000 branches and its home offices.

WFAFN also maintains its principal place of business in St. Louis, Missouri, and is a full-service broker-dealer that became a FINRA-registered firm in 1983. WFAFN is under common control with WFA and has over 2,100 registered representatives and more than 700 branch offices.

RELEVANT DISCIPLINARY HISTORY

The Firms have no relevant disciplinary history.

OVERVIEW

Between June 2009 and June 2015 (the “Relevant Period”), Respondents failed to establish, maintain, and enforce reasonable supervisory systems for the use of consolidated reports generated by their registered representatives through a particular application (the “Application”) that the Firms made available to their registered representatives. Respondents failed to review the content of the consolidated reports generated using the Application (the “Application Reports”), including customized values for assets and accounts held away from the Firms. Further, the Firms failed to provide a mechanism allowing their representatives to designate which Application Reports were actually provided to customers. Respondents could not distinguish between draft Application Reports and Reports that were completed and sent to customers, which should have been subjected to the Firms’ supervisory systems designed to review customer communications.¹

Through this conduct, WFA and WFAFN violated NASD Rule 3010 (for conduct prior to December 1, 2014), and FINRA Rules 3110 (for conduct on and after December 1, 2014) and 2010.

FACTS AND VIOLATIVE CONDUCT

A consolidated report is a document provided by a broker to a customer that combines account information regarding a customer’s financial holdings, regardless of where those assets are held. Consolidated reports supplement, but do not replace, the customer account statements required pursuant to NASD Rule 2340.

FINRA Regulatory Notice 10-19 reminds member firms that consolidated reports are communications with the public and therefore must be clear, accurate, and not misleading pursuant to FINRA Rule 2210(d)(1), which describes the content standards applicable to such communications. Firms that allow representatives to create consolidated reports must supervise the activity pursuant to FINRA Rule 3110 (and its predecessor NASD Rule 3010). Where consolidated reports include accounts and assets held away from a firm, the firm must ensure that registered representatives are taking reasonable steps to ensure that those accounts and assets are valued accurately. The Notice recommends that firms providing consolidated reports to customers “ensure that the size and complexity of the consolidated reporting program does not exceed the firm’s ability to supervise the activity and to subject it to a rigorous system of internal controls.”

¹ WFA and WFAFN maintained *all* Application Reports.

During the Relevant Period, Respondents permitted their registered representatives to use up to 10 or more different applications to create consolidated reports, including the Application. The Application was the most widely used consolidated reporting application at WFA and WFAFN. The Firms' registered representatives prepared or generated more than 5,000,000 Application Reports during the Relevant Period, more than double the amount of consolidated reports generated from all of the other available applications, combined.²

When preparing Application Reports, the Firms' representatives were permitted to manually enter information regarding customers' external accounts, assets and liabilities into a centralized Assets and Liabilities Table, which the Firms maintained. The Application would pull that information from the Table to populate the Application Reports, including those that were then sent to the Firms' customers.

During the Relevant Period, Respondents reviewed a random sampling of only 2% of the Application Reports. The Firms reviewed only the cover sheets, focusing on grammatical errors, customer contact information, the last date the Application Report was generated, and whether the Application Reports had the required disclosures.³ WFA and WFAFN did not, and had no system in place to, review the contents of the Application Reports, including information about customers' holdings away from the Firms.

Further, the Firms' supervisory systems and procedures were inadequate because there was no mechanism in place to distinguish between Application Reports that were drafted by representatives but never sent to customers, and Application Reports that were completed and provided to customers (i.e., customer communications). As a result, Respondents cannot determine which Application Reports were provided to customers during the Relevant Period.

By failing to establish a supervisory system reasonably designed to achieve compliance with applicable securities laws and regulations regarding the use and dissemination to customers of the Application Reports by its registered representatives, WFA and WFAFN violated FINRA Rules 3110 (for conduct on and after December 1, 2014) and 2010, and NASD Rule 3010 (for conduct prior to December 1, 2014).

² Due to system limitations, WFA's and WFAFN's numbers included all iterations of Application Reports that were generated, including draft Reports that were not given to customers during the Relevant Period. WFA and WFAFN representatives generated approximately 4,900,000 and 376,325 Application Reports, respectively.

³ Those disclosures, however, do not excuse Respondents' failure to review the content of Application Reports provided to customers.

B. Respondents also consent to the imposition of the following sanctions:

1. A censure of each; and
2. A joint and several fine of \$1,000,000.

Respondents agree to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondents have submitted Election of Payment forms showing the method by which they propose to pay the fine imposed.

The Firms specifically and voluntarily waive any right to claim that they are 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

Respondents specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against the Firms;
- 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, Respondents specifically and voluntarily waive 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.

Respondents further specifically and voluntarily waive 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

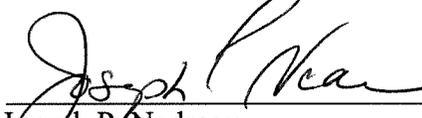
Respondents understand that:

- 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 the Firms; and
- C. If accepted:
 - 1. this AWC will become part of Respondents’ permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Firms;
 - 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. Respondents 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. Respondents 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 the Firms’: (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. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Principal 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 the Firms, certifies that a person duly authorized to act on their behalves has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Respondents have 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 Respondents to submit it.

Respondent Wells Fargo Advisors, LLC
(now known as Wells Fargo Clearing Services, LLC)

12/11/16
Date (mm/dd/yyyy)

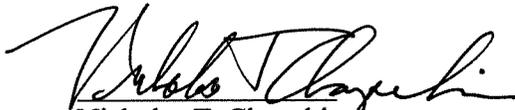
By: 
Joseph P. Nadreau
Managing Director,
Wells Fargo Clearing Services, LLC

Respondent Wells Fargo Advisors Financial Network, LLC

12/01/2016
Date (mm/dd/yyyy)

By: 
C. Kent Christian
President

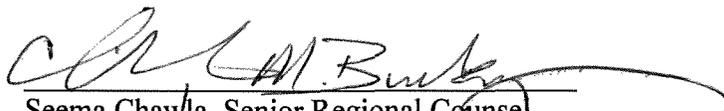
Reviewed by:


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Accepted by FINRA:

12/5/16
Date

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



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*By: Christopher M. Burky, Deputy
Regional Chief Counsel*

Corrective Action Statement

This Corrective Action Statement is submitted by the Respondents. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.

The Respondents have implemented revised supervisory procedures and guidance concerning the review of external assets and liabilities used in consolidated reports provided to customers. In addition, during calendar year 2017, the Respondents plan to begin implementing additional systems and procedures reasonably designed to review, and verify with documentation, external assets and liabilities prior to the inclusion of such assets and liabilities in consolidated reports provided to customers.