FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20150480471-03

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

RE: Eli Broverman, Respondent
Financial and Operations Principal, Operations Professional,
Corporate Securities Representative, General Securities Principal
CRD No. 5655953

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Eli Broverman ("Broverman") 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 Broverman alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

A. I, Eli Broverman, 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

Broverman first became registered with FINRA as an Operations Professional and Financial and Operations Principal through his association with Betterment Securities ("Betterment Securities" or the "Firm") in December 2011. On July 20, 2012, Broverman also became registered as a Corporate Securities Representative through his association with the Firm. On August 12, 2013, Broverman became a General Securities Principal through his association with the Firm. Broverman maintained these registrations through his association with Betterment Securities until he voluntarily resigned from the Firm in March 2017. Broverman worked in the Firm's New York, New York office. Broverman is not currently associated with a FINRA-regulated broker-dealer. Pursuant to Article V, Section 4 of the FINRA By-Laws, FINRA retains jurisdiction over Broverman.

RELEVANT DISCIPLINARY HISTORY

Broverman has no relevant disciplinary history with the Securities and Exchange

Commission (the "SEC"), FINRA, any other self-regulatory organization, or any state securities regulator.

OVERVIEW

Betterment Securities is a carrying firm. As such, the Firm has a primary responsibility to protect its customers' assets. Betterment Securities' brokerage business grew quickly. The Firm had approximately $120,000 in annual revenues in 2011 and more than $1.2 million in annual revenues in 2014.

From October 2013 through January 2015, Broverman was a Principal of Betterment Securities. During that time, Broverman had primary supervisory responsibility for finance and operations at the Firm. In that role, Broverman was responsible for the Firm's compliance with the reserve formula and possession and control requirements of Section 15 of the Securities Exchange Act of 1934 ("SEA") and Rule 15c3-3 promulgated thereunder. However, during the period of the Firm's rapid growth, Broverman did not ensure that the Firm's practices complied with certain FINRA and SEC financial and operational rules and interpretations.

Specifically, from October 2013 through January 2015, the Firm had a practice, designed by Broverman, of structuring its transactions on days when it was required to calculate its reserve deposit differently than on other days in order to reduce its Customer Reserve Account obligations. On most days, the Firm moved customer deposits from its FDIC-insured sweep account to its omnibus account to fund its pre-settlement withdrawal program. However, on days when the Firm was required to compute its customer reserve requirement, the Firm did not move customer deposits and instead used loans from its clearing firm to fund that program. Thus, Broverman caused the Firm to engage in "window dressing" by altering its practices on reserve computation days specifically to reduce its reserve formula computation and thereby reduce its reserve requirement. This practice constitutes a violation of the reserve formula requirement of SEA Rule 15c3-3. By causing the Firm's violations of SEA Rule 15c3-3, Broverman violated FINRA Rule 2010 from October 2013 through January 2015.

In addition, from October 2013 through August 2014, Broverman caused the Firm to fail to properly segregate customers' wholly owned securities in a good control location. This constitutes a violation of the possession and control requirement of SEA Rule 15c3-3. By causing the Firm's violations of SEA Rule 15c3-3, Broverman violated FINRA Rule 2010 from during the period from October 2013 through August 2014.

FACTS AND VIOLATIVE CONDUCT

The Customer Protection Rule

SEA Rule 15c3-3, known as the Customer Protection Rule, is aimed at protecting customers' funds and securities.

The customer reserve provisions of Rule 15c3-3 require broker-dealers that receive customer funds or securities to maintain a Special Reserve Account for the Exclusive Benefit of Customers (the "Customer Reserve Account"). Rule 15c3-3(e)(3) requires broker-dealers to perform weekly computations, as of the close of the last business day of the week, to determine the amount to be deposited in the Customer Reserve Account. The formula requires a broker-dealer to calculate amounts it owes customers, or credits, and amounts that customers owe the firm, or debits. If credits exceed debits, the broker-dealer must deposit the net difference in its Customer Reserve Account. In connection with the reserve computation, NYSE Interpretation Memo No. 89-10 (issued in 1989; subsequently adopted by FINRA), instructed that "[a]ny...device, window dressing or restructuring of transactions made solely to reduce an excess of credits over debits in the formula computation and not otherwise a normal business transaction" may be considered "a circumvention of the requirement of SEA Rule 15c3-3(e)(2) and an avoidance of the deposit requirement of SEA Rule 15c3-3(e)(1)."[1]

The possession or control provisions of Rule 15c3-3 require broker-dealers to protect securities that customers leave in the firm's custody. Under SEA Rule 15c3-3(b), broker-dealers must promptly obtain and thereafter maintain physical possession or control of all customers' fully-paid and excess margin securities.[2] To comply with the Rule, broker-dealers segregate or lock up customers' fully paid and excess margin securities in a "good control location" separate from the broker-dealer's own assets. Rule 15c3-3(c)(2) provides that an omnibus account at a clearing firm is a good control location to the extent that the broker-dealer instructs the clearing firm to maintain customer securities free of any charge, lien or claim of any kind.

Violations of Rule 15c3-3 are also violations of FINRA Rule 2010, which requires FINRA member firms to "observe high standards of commercial honor and just and equitable principles of trade."

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[1] *See* Interpretations of Financial and Operational Rules, compiling interpretations provided by the staff of the SEC's Division of Trading and Markets and published by FINRA, Rule 15c3-3(e)(2)/02, available on FINRA's public website at http://www.finra.org/industry/interpretationsfor

[2] Betterment Securities does not offer its customers margin credit.

Betterment Securities' Pre-Settlement Withdrawal Program

From October 2013 through January 2015, Broverman had primary supervisory responsibility for the Firm's compliance with the reserve formula requirement of Rule 15c3-3. During that time, Betterment Securities provided early payments to its customers selling securities. The Firm sent the cash proceeds from securities sales to customers two days before those trades settled. The pre-settlement withdrawal program was generally funded through customer free credit balances that Betterment Securities moved into its omnibus accounts.

Specifically, the Firm had a practice, designed by Broverman, of funding the pre-settlement withdrawal payments by moving the deposits of purchasing customers from its sweep account to its omnibus account one day before settlement of the purchase transactions. Customer deposits in the omnibus account needed to be reserved for in the Customer Reserve Account to protect them from risk. During the one week period from June 2, 2014 through June 6, 2014, customer purchases averaged approximately $4 million a day.

Broverman was aware that using these customer free credit balances to fund the pre-settlement withdrawal program was beneficial to the Firm. If the Firm did not use those balances to facilitate the pre-settlement withdrawal program, it would instead have needed to create debit balances in its omnibus accounts when it provided pre-settlement withdrawals. Debit balances in the omnibus accounts were essentially loans from the Firm's clearing firm on which the Firm paid interest. Thus, funding this program with customer free credit balances meant that the Firm could provide its selling customers with early liquidity without accruing interest expenses.

Window Dressing in Violation of the Reserve Requirement of Rule 15c3-3

Broverman was also aware that the practice of moving customer deposits to the omnibus account before settlement date to fund pre-settlement withdrawals had an effect on the Firm's reserve calculation. Customer funds held in the omnibus accounts were credits, for which the Firm needed to reserve under 15c3-3. Customer funds held in the sweep account were not credits for the purpose of the reserve calculation. Therefore, if Betterment Securities moved any deposits from its sweep accounts to its omnibus accounts on a reserve calculation day, the Firm would be required to include those deposits in its reserve calculation.

The Firm, acting through Broverman, organized its transactions to avoid reserve requirements arising from the movement of customer deposits to its omnibus account before settlement. On most days, the Firm moved customer deposits from its sweep account to the omnibus account before settlement date and used the resulting customer free credits to fund pre-settlement withdrawals for selling customers. The Firm deviated from this practice at week and month-end, when the reserve computation was required to be calculated. On reserve calculation

days, the Firm did not move customer deposits to its omnibus account. Instead, on those days, the Firm funded the pre-settlement withdrawals by creating a debit balance in its omnibus account, which was essentially a loan from its clearing firm on which Betterment Securities accrued interest. As a result, the Firm avoided reserving for those customer deposits that it generally moved to its omnibus account. Thus, Broverman caused Betterment Securities to engage in window dressing by structuring its transactions specifically to reduce an excess of credits over debits in its reserve computation.

By reason of the foregoing, Broverman caused Betterment Securities to violate Section 15 of the SEA, Rule 15c3-3(e) promulgated thereunder, and FINRA Rule 2010 during the period from October 2013 through January 2015. By causing the Firm's violations, Broverman violated FINRA Rule 2010.

Possession or Control

From October 2013 through August 2014, Broverman had primary supervisory responsibility for the Firm's compliance with the possession or control requirement of Rule 15c3-3. At all relevant times, Betterment Securities held its customers' securities in omnibus accounts at its clearing firm. Betterment Securities did not provide its clearing firm with daily segregation instruction requirements for fully paid customer securities from October 2013 through August 2014. Instead, Broverman instructed the clearing firm in two emails, one dated December 2011 and the other dated August 2014, that the Firm's omnibus accounts should be maintained free of any charge, lien, or claim of any kind. However, the clearing agreement in place between Betterment Securities and its clearing firm at that time allowed the clearing firm to demand payment on any debit balance in the omnibus accounts. Betterment Securities had debit balances in its omnibus accounts at the clearing firm as a result of the pre-settlement withdrawal program described above. For example, in June 2014, Betterment Securities had an average debit balance of approximately $770,000 in its omnibus accounts at the clearing firm.

Because the clearing firm had a claim on debit balances in the omnibus accounts, the omnibus accounts were not a good control location. To the contrary, customer securities that were in the omnibus accounts were potentially available for use by the clearing firm, to the extent of existing debit balances.

By reason of the foregoing, Betterment Securities violated Section 15 of the Securities Exchange Act and Rule 15c3-3(b) promulgated thereunder and FINRA Rule 2010 from October 2013 through August 2014. By causing the Firm's violations, Broverman violated FINRA Rule 2010.

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

1. a censure; and

2. a fine of $10,000.

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

I specifically and voluntarily waive any right to claim that I am 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

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

A. To have a Complaint issued specifying the allegations against me;

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, I 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.

I 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

I 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 me; and

C. If accepted:

1. this AWC will become part of my permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against me;

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. I 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. I 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 my: (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. I may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. I understand that I 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.

I, Eli Broverman, certify that I have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that I 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 me to submit it.

06/08/2018
Date (mm/dd/yyyy)

Eli Broverman
Respondent

Reviewed by:

David Sieradzki
Counsel for Respondent
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(202) 729-7470

Accepted by FINRA:

6/20/2018
Date

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

Jessica L. Brach
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