

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2009020074601**

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

RE: Lincoln Financial Advisors Corporation
BD No. 3978

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Lincoln Financial Advisors Corporation ("LFA" 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 the Firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The Firm 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

LFA, a subsidiary of The Lincoln National Life Insurance Company, conducts a general securities business. The Firm, which has been a FINRA member since 1969, employs approximately 2,419 registered representatives and has approximately 481 branch offices. The Firm is headquartered in Fort Wayne, Indiana.

RELEVANT DISCIPLINARY HISTORY

LFA has the following prior disciplinary history.

The Firm submitted an AWC in case C8A050067 on or about June 23, 2005 for violations of NASD Rules 2110 and 3070. The Firm failed to

disclose reportable events within 10 days after it knew or should have known of the existence of the events and failed to timely report customer grievances to NASD. The Firm was fined \$75,000.

The Firm submitted an AWC in case EAF04008600 on or about August 16, 2005, for violations of NASD Rules 2110 and 2830. The Firm, in connection with an agreement between mutual fund complexes and the Member's clearing firms, received from one or both of its clearing firms, directed brokerage commission payments that involved the use of trading commissions to generate payments for participation in the firm's preferred partner program. The firm was censured and fined \$950,000.

OVERVIEW

Between 2007 and 2009, LFA failed to adequately protect customer records and information in the Firm's client portfolio management system known as OmniSource. The Firm allowed certain employees to share computer sign-on credentials, specifically user names and passwords, to access OmniSource files, which contained confidential personal customer information, for the purpose of conducting business on behalf of the Firm. The Firm did not place adequate controls and procedures on the use or dissemination of the user names or passwords, allowing potential access to the customer information outside of LFA's control and management.

Accordingly, the Firm violated Rule 30 of Regulation S-P, which generally requires firms to protect customer information, and also failed to adequately supervise its personnel, and violated NASD Rules 3010, 2110 and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Rule 30 of Regulation S-P requires that every broker dealer adopt written policies and procedures that address administrative, technical, and physical safeguards for the protection of customer records and information. The 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 or information; (3) protect against unauthorized access to or use of customer records or information that could result in substantial harm or inconvenience to any customer. Regulation S-P became effective in November 2000, and compliance with the rules and regulations have been mandatory since July 1, 2001. The requirement that

policies and procedures be written has been in place since 2005.¹

The Firm allowed employees to access its web-based customer account system by using shared log-on credentials without establishing adequate procedures and without controlling or monitoring who had access to the common log-on credentials

OmniSource is a web-based system that allows LFA personnel and customers to view account information from multiple sources within a single platform. With the assistance of a third party vendor, the Firm's Business Solutions Department implemented and managed OmniSource.

LFA began using OmniSource in May of 2007. As of August 20, 2009, OmniSource contained approximately 1,148,874 LFA customer account records consisting of confidential customer information, including:

- customer names
- customer addresses
- customer social security numbers
- account numbers
- customer account registrations
- account transaction details
- account balances
- birth dates and email addresses.

From May 2007 to August 2009, LFA home office personnel were able to access OmniSource by first logging onto a firm managed home page using their own unique individual password and user name. Once logged on to the LFA website, the user then clicked on a link which redirected the user to the OmniSource website.

OmniSource was also available to home office personnel through an alternate method of access. Using any internet browser, the home office user could navigate directly to the OmniSource website and then input one of four shared common user names and passwords.

While LFA could monitor and supervise OmniSource access through an employee's individual LFA password and user name, LFA was not able to supervise or track which employees obtained access to OmniSource through the use of the shared or common user names and passwords. Furthermore, the Firm did not have policies or procedures to monitor or supervise the distribution of the common user names and passwords and the Firm was unable to determine which

¹ Rule 30 of Regulation S-P is found at 17 CFR 248.30.

employees or how many had been given access to the common user names and passwords.

Likewise, the Firm did not have procedures to disable or change the user names and passwords on a recurring basis or even after a home office employee was terminated or otherwise no longer associated with the Firm. The same common shared user names and passwords had not been changed between 2007 and 2009, although it is a common and prudent practice to regularly change user names and passwords. During the relevant period, many individuals, both registered and non-registered, terminated employment from LFA, voluntarily and involuntarily. It is unknown whether any of the terminated individuals accessed the confidential customer information through OmniSource using the common user names and passwords after termination.

During the relevant period (2007 to 2009), the common user names and passwords were used to directly access approximately 800,661 customer account records. When an affiliated company had been notified that customer information and records were vulnerable to security breaches as a result of the uncontrolled access to and distribution of the common user names and passwords, the Firm retained a consultant to review its OmniSource system and determine if at any time a breach had occurred. Although the consultant did not find evidence of any breach, the consultant concluded that the design of the OmniSource system included limitations on the ability to determine access points. In other words, there was no way to determine who accessed the OmniSource system using the common user names and passwords or from what internet address access occurred.

As a result, non-public personal information was not properly safeguarded and was at risk due to a lack of supervision and control over the Firm's OmniSource system access. Allowing the use of common user names and passwords to access the OmniSource system, current and/or former employees had the ability to review customer confidential information from any location that had internet access.

As a result of the foregoing, LFA violated Rule 30 of Regulation S-P, NASD Rules 3010, 2110 and FINRA Rule 2010.

OTHER FACTORS

LFA notified FINRA that it used the same OmniSource system as its affiliate LFS, and that a potential vulnerability had been identified with OmniSource access. Additionally, the Firm immediately disabled access to the OmniSource

system through the use of common user names and passwords. The Firm transferred oversight of OmniSource to an Information Security team, established procedures for using the OmniSource system, hired a technology consultant to investigate whether there had been any security breach, adopted the consultant's recommendations, notified in writing all customers whose account information was or had been potentially available on the OmniSource system, offered credit monitoring and restoration services to customers who requested it for a period of one year, and implemented a Data Security Policy establishing requirements around password protection, operating systems in use, antivirus protection, firewall protection, and full drive encryption. Additionally, the Firm put procedures in place that requires all registered representative users to certify compliance with the Data Security Policy annually.

B. The Firm also consents to the imposition of the following sanctions:

A censure and a fine of \$150,000.

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

The Firm specifically and voluntarily waives any right to claim that the Firm 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

The Firm specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against the Firm;
- 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, the Firm specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, 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.

The Firm 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

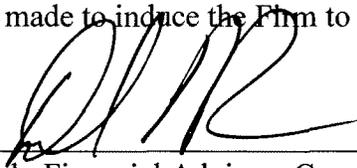
The Firm understands that:

- 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 the Firm; and
- C. If accepted:
 - 1. this AWC will become part of the Firm’s permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Firm;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the Firm’s disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and

4. the Firm 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. The Firm 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 Firm's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. The Firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Firm 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.

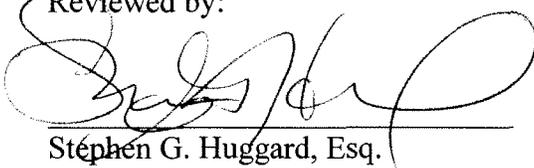
The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that the Firm has agreed to its provisions voluntarily; and that no offer, threat, 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 the Firm to submit it.

12/21/2010
Date


Lincoln Financial Advisors Corporation

By: David K. Booth

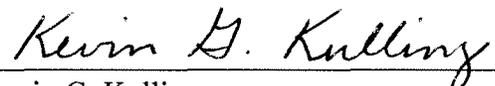
Reviewed by:


Stephen G. Huggard, Esq.
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Accepted by FINRA:

2/16/2011
Date

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


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