

FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of the
Continued Membership
of
Piper Jaffray & Co.

Notice Pursuant to
Rule 19h-1 of the
Securities Exchange Act
of 1934

SD-2017

Date: November 6, 2014

I. Introduction

On December 10, 2013, Piper Jaffray & Co. ("Piper" or the "Firm") submitted a Membership Continuance Application ("MC-400A" or "the Application") with FINRA's Department of Registration and Disclosure.¹ The Application seeks to permit the Firm, a FINRA member, subject to a statutory disqualification, to continue its membership with FINRA notwithstanding its disqualification. A hearing was not held in this matter; rather, pursuant to FINRA Rule 9523(b), FINRA is filing this Notice pursuant to Rule 19h-1 of the Securities Exchange Act of 1934 ("Exchange Act" or "SEA").

II. The Statutorily Disqualifying Event

Piper is subject to a statutory disqualification pursuant to Section 3(a)(39)(F) of the Exchange Act due to an Order Instituting Administrative and Cease-And-Desist Proceedings ("the Order") issued by the United States Securities and Exchange Commission ("SEC" or "the Commission") on November 5, 2013.² Jane Towery ("Towery"), a former employee of Piper, was also a respondent in the Order.³ Specifically, in 2008, Piper was hired by the municipality

¹See the MC-400A Application filed with FINRA by Piper Jaffray & Co., as well as related documents, dated December 10, 2013 (attached as Exhibit 1).

²See the SEC's Order dated November 5, 2013, in the Matter of Piper Jaffray & Co. and Jane Towery (attached as Exhibit 2).

³As of November 20, 2013, Towery was no longer associated with Piper and she is currently not associated with any FINRA member. See Form U5 – Uniform Termination Notice for Securities Industry Registration, filed on behalf of Towery on November 20, 2013 (attached as Exhibit 3).

of the Greater Wenatchee Regional Events Center Public Facilities District ("District") to serve as the sole underwriter for \$41.77 million in Bond Anticipation Notes ("BANs"). The District is located in Wenatchee, Washington. The BANs were issued to finance a multi-use arena and ice hockey rink in the District. Piper was hired as a last minute replacement for a predecessor underwriting firm. Pursuant to the Order, Piper and Towery conducted inadequate due diligence and failed to form a reasonable basis for believing the truthfulness and the completeness of material statements in the Preliminary Official Statement ("Official Statement") on the BANs. Specifically, they negligently relied on projections that were contained in the Official Statement that was prepared by the predecessor underwriter. Piper and Towery were unaware that material information was deleted from the document by the prior underwriter. The District subsequently defaulted on the BANs. Piper and Towery consented to findings that they willfully violated Sections 17(a)(2) and (3) of the Securities Act of 1933 ("Securities Act"). Without admitting or denying the findings, the Firm entered into the Order in which it was censured; ordered to cease and desist from committing or causing any future violations of Section 17(a)(2) and (3) of the Securities Act; and ordered to pay a civil penalty of \$300,000.⁴ In addition, Piper agreed to retain an Independent Consultant ("the Consultant"), follow the recommendations from the Consultant's report and certify continued compliance with all of the undertakings on the one year and two year anniversaries of Piper's initial compliance certification.⁵

III. Background Information

A. The Firm

Piper is based in Minneapolis, Minnesota and has been a NASD/FINRA member since 1936. The Firm has 44 branch offices, 38 of which are designated as Offices of Supervisory Jurisdiction ("OSJ"). The Firm employs 644 registered representatives, 165 registered principals, and 946 employees. Piper is engaged in the following types of businesses: exchange member engaged in exchange commission business other than floor activities; broker or dealer retailing corporate equity securities over the counter; broker or dealer selling corporate debt securities; underwriter or selling group participant in corporate securities other than mutual funds; mutual fund retailer; U.S. government securities dealer; U.S. government securities broker; municipal securities dealer; municipal securities broker; put and call broker or dealer or option writer; broker or dealer selling securities of non-profit organizations; trading securities for

⁴See Transaction Summary for wire transfer of \$300,000 payment from Piper to the SEC on November 14, 2013 (attached as Exhibit 4).

⁵See the Firm's letter to the SEC, dated April 2, 2014, along with a copy of its first certification, also dated April 2, 2014, and relevant exhibits (all attached as Exhibit 5).

own account; private placement of securities; and broker or dealer selling interest in mortgages or other receivables.⁶ The Firm also represents that it acts as a swap advisor for the purpose of entering into swap contracts on a limited basis. Piper is a member of eight other self-regulatory organizations ("SROs"): BATS-YX, BATS-ZX, EDGA, EDGX, NQX, NYSE, NYSE ARCA and NYSE-MKT. The Firm is also a member of the Depository Trust & Clearing Corporation ("DTCC").

B. Routine Examinations

A 2013 combined Financial/Operational, Branch Cause and Sales Practice Examination resulted in a Letter of Caution ("LOC").⁷ From that examination, Piper was cited for four exceptions. Notably among the exceptions, FINRA found that the Firm failed to comply with NASD Rule 3010 (Supervision), because it did not maintain any written procedures for the periodic inspection of non-branch locations and it had not conducted any prior formal audits of these locations. In another instance, the Firm failed to comply with FINRA Rule 2111 (Suitability) and NASD Rule 3010 (Supervision) because it did not collect any customer suitability information or properly record, review or supervise information related to private securities transactions.

A 2012 combined Financial/Operational and Off-Cycle Municipal examination also resulted in an LOC.⁸ From that examination, Piper was cited for failure to comply with FINRA Rule 4512 (Customer Account Information) because it failed to maintain the names of persons authorized to transact business on its institutional customers. Piper was also cited for not complying with NASD Rule 3010 (b) (Written Procedures) because it failed to enforce its written supervisory procedures pertaining to the account opening process for institutional accounts.

Regulatory Actions

In recent years, the Firm has been the subject of 16 FINRA letters of Acceptance, Waiver and Consent ("AWC") and two FINRA Minor Rule Violations.⁹ The violations from these regulatory actions are chiefly based on transaction reporting violations and incidents where the Firm's written supervisory policies and procedures were inadequate. In addition to the Order, the SEC has brought four other regulatory actions against Piper. Chief amongst the exceptions,

⁶ See Types of Business for the Firm (attached as Exhibit 6).

⁷ See the Examination Disposition Letter, dated December 30, 2013; Examination Report for Examination Number 20130349516, dated August 12, 2013; and the Firm's response, dated December 6, 2013 (all attached as Exhibit 7).

⁸ See the Examination Disposition Letter, dated October 23, 2012; Examination Report for Examination Number 20120302989, dated September 11, 2012; and the Firm's response, dated October 9, 2012 (all attached as Exhibit 8).

⁹ See copies of the most recent MRVs and AWCs filed against Piper (all attached as Exhibit 9).

from those additional matters, was that the Firm was cited for trading violations, inadequate preservation of electronic mail, violations related to the monitoring of the Firm's research and investment banking analysts and for its failure to properly supervise a registered representative. The New York Stock Exchange ("NYSE"), NYSE Arca and the Chicago Board Options Exchange ("CBOE") and several state regulations have also brought regulatory actions against Piper. Collectively, in these regulatory actions, Piper was cited for violations of Regulation SHO violations; failure to comply with market making rules, trading violations, not properly implementing its written supervisory procedures, failing to retain electronic mail correspondences, violations related to the monitoring of the Firm's research and investment banking analysts, failure to supervise and options trading violations, omission of material facts in the sale of annuities and failure to exercise discretion in a client's account.

The Department is not aware of any other complaints, disciplinary proceedings, or arbitrations pending against Piper.

IV. The Firm's Proposed Continued Membership with FINRA and the Supervisory Plan

Notwithstanding its disqualification, Piper seeks to continue its membership with FINRA. It contends that the Order "relates to negligence based claims in the area of due diligence, rather than any type of intentional violation, and that the SEC "did not bar or suspend the Firm from engaging in the securities business."¹⁰

V. Discussion

After carefully reviewing the entire record in this matter (that includes certain representations by the Firm), FINRA approves the Firm's request to continue its membership in FINRA, subject to the terms and conditions set forth below.

When evaluating a membership continuance application for a firm, we assess whether the statutorily disqualified firm that is seeking to continue its membership in FINRA has demonstrated that its continued membership is in the public interest and does not create an unreasonable risk of harm to investors or the markets.¹¹ Factors that bear on FINRA's assessment include the nature and gravity of the statutorily disqualifying misconduct, the restrictions imposed, whether there has been any intervening misconduct, and the potential for future regulatory problems.

¹⁰See the Firm's statement (Attachment C of Exhibit 1).

¹¹See e.g., *Frank Kufrovich*, 55 S.E.C. 616, 623 (2002); *William J. Haberman*, 53 S.E.C. 1024, 1027 (1998), *aff'd*, 205 F.3d 1345 (8th Cir. 2000) (Table).

With these standards in mind, we noted that subsequent to the Order, Piper re-evaluated and substantially revised its municipal underwriting due diligence procedures. The Firm also intends to revise its investment banking personnel, supervisory policies and procedures.¹² Further, as part of the undertakings from the Order, Piper was ordered to retain the Consultant, who would review and submit a written report. Based on the Consultant's recommendations, Piper has adopted and implemented the following recommendations:¹³

- 1) Implemented revised policies and procedures on the Due Diligence Obligations of Municipal Underwriters: Negotiated Offerings, dated April 5, 2014¹⁴;
- 2) Created additional Supervisory Procedures for the Public Finance Group, in order to provide for the monitoring of compliance with the revised procedures¹⁵;
- 3) The Firm clarified formal and informal channels of communication, which is evidenced in its revised procedures and its revised Code of Ethics and Business Conduct manual¹⁶;
- 4) Piper developed an enhanced intranet, with a section dedicated to due diligence;¹⁷ and
- 5) The Firm adopted procedures governing the conduct of annual compliance audits, which is documented in its audit procedures.¹⁸

Based on the above, we find the actions that Piper has already undertaken to remedy the violation, as well as the special procedures set forth below, that the Firm has met its burden in the Application. Accordingly, we do not believe that Piper's continued membership in FINRA will create an unreasonable risk of harm to the market or investors. Further, the Firm no longer employs Towery, the employee that was also named as a respondent in the Order. Lastly, upon

¹²See letter from Ann. C. McCague, of Piper, to Lorraine Lee-Stepney, of FINRA, dated May 1, 2014 (attached as Exhibit 10).

¹³See the Report of Independent Consultant to Piper Jaffray & Co., dated February 3, 2014 (attached as Exhibit 11) and also see Exhibit 5, the Firm's first certification.

¹⁴See the Firm's Policy on Due Diligence Obligations of Municipal Underwriters (as of April 5, 2014) (attached as Exhibit 12).

¹⁵See revised supervisory procedures for the Public Finance Group (attached as Exhibit 13).

¹⁶See Piper's Code of Ethics and Business Conduct manual (attached as Exhibit 14).

¹⁷See page from Piper's intranet (attached as Exhibit 15)

¹⁸See the Firm's Public Finance Due Diligence Compliance Audit Procedures, dated April 4, 2014 (attached as Exhibit 16).

completion of all of its undertakings from the Order, the Firm will not be subject to disqualification.

We note that the Order is recent; however, Piper's disciplinary history does not reflect any similar violations subsequent to the entry of the Order. The formal actions that have been taken against the Firm chiefly involved reporting violations, and the Firm has taken corrective actions to address such violations. FINRA staff concludes that the Firm's regulatory history does not adversely reflect upon its current ability to comply with securities rules and regulations to the extent that a denial of its continued membership is required.

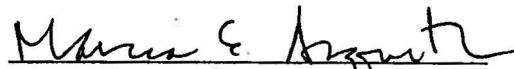
We are accordingly satisfied that the Firm's continued membership with FINRA will not create an unreasonable risk of harm to the market or investors based upon the foregoing and the following special procedures for the Firm¹⁹:

1. Piper must continue to comply with all of the undertakings from the Commission's Order;
2. No later than 5 business days after the designated event, Piper must evidence in writing to FINRA's Regulatory Operations Department, Attn: Statutory Disqualification Manager, that it has complied with the undertakings from the Order; and
3. It will be the responsibility of Piper's staff to notify FINRA, in writing, when it has complied with the final undertaking from the Commission's Order.

Accordingly, we approve the Firm's Application to continue its membership with FINRA as set forth herein. BATS-YX, BATS-ZX, EDGA, EDGX, NQX, NYSE, NYSE ARCA, NYS 3-MKT and DTCC have concurred with FINRA's approval.

In conformity with the provisions of SEA Rule 19h-1, the continued membership of the Firm will become effective within 30 days of the receipt of this notice by the Commission, unless otherwise notified by the Commission.

On Behalf of FINRA,



Marcia E. Asquith
Senior Vice President and Corporate Secretary

¹⁹See the letter from Lorraine Lee-Stepney of FINRA, to Ann C. McCague, of Piper, wherein the Firm agrees to its plan of heightened supervision, dated October 8, 2014 (attached as Exhibit 17).