

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2020066123602**

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

RE: First Trust Portfolios L.P. (Respondent)
Member Firm
CRD No. 28519

Pursuant to FINRA Rule 9216, Respondent First Trust Portfolios L.P. (First Trust 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 Respondent alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

- A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

First Trust is a wholesale distributor of securities issued primarily by affiliated investment companies. It has been a FINRA member firm since 1991 and has approximately 700 registered representatives and 4 branch offices. The Firm is headquartered in Wheaton, Illinois.¹

OVERVIEW

Between at least 2018 and at least February 2024, First Trust provided non-cash compensation (e.g., gifts, meals, and entertainment) to representatives of retail broker-dealers that sell First Trust investment company securities (Client Firms) in amounts that significantly exceeded FINRA limits, and in certain instances provided non-cash compensation preconditioned on Client Firm representatives achieving sales targets. During the same period, First Trust wholesalers falsified internal expense reports relating to non-cash compensation provided to Client Firm representatives, and First Trust sent Client Firms false information concerning the value, nature, and frequency of non-cash compensation provided. Finally, the Firm failed to establish, maintain, and enforce a system reasonably designed to achieve compliance with non-cash compensation rules and expense-related recordkeeping requirements.

¹ For more information about the Firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

As a result, First Trust violated FINRA Rules 2010, 2341, 3110, and 4511, as well as Section 17(a) of the Securities Exchange Act of 1934 and Exchange Act Rule 17a-3. For these violations, First Trust is censured, fined \$10 million, and has agreed to an undertaking to provide annual certifications to FINRA, for a three-year period, regarding the Firm's compliance with the rules identified in this AWC.

FACTS AND VIOLATIVE CONDUCT

1. First Trust Violated Rules Concerning Non-Cash Compensation.

FINRA Rule 2341(l) sets forth requirements regarding a firm's payment of cash and non-cash compensation in connection with the sale and distribution of investment company securities. FINRA Rule 2341(l)(5) prohibits firms from "accept[ing] or mak[ing] payments or offers of payments of any non-cash compensation," subject to specified exceptions.

As FINRA has advised member firms, "the increased use of non-cash compensation creates significant point-of-sale incentives that may compromise the requirement to match the investment needs of the customer with the most appropriate investment product."²

In particular, FINRA Rule 2341(l)(5)(A) permits "[g]ifts that do not exceed an annual amount per person"—set by FINRA at \$100—and that are "not preconditioned on achievement of a sales target."

FINRA Rule 2341(l)(5)(B) permits "[a]n occasional meal, a ticket to a sporting event or the theater, or comparable entertainment which is neither so frequent nor so extensive as to raise any question of propriety and is not preconditioned on achievement of a sales target." FINRA's longstanding position has been that "a member must accompany or participate in an event for it to be business entertainment. Thus, for example, if a member gives tickets to a sporting event but does not accompany the recipient to the event, the tickets are deemed to be a gift rather than business entertainment."³ FINRA Rule 2341(l)(5)(C) permits an "offeror,"⁴ such as First Trust, to pay for, or reimburse, expenses in connection with training or educational meetings held by the offeror, provided that certain requirements are satisfied, including where the payment or reimbursement is not preconditioned on the achievement of a sales target.

² See Notice to Members 98-75 (Sept. 1998).

³ See Notice to Members 06-06 (Jan. 2006).

⁴ An "offeror" is defined as "an investment company, an adviser to an investment company, a fund administrator, an underwriter and any affiliated person (as defined in Section 2(a)(3) of the Investment Company Act [of 1940]) of such entities." See FINRA Rule 2341(b)(1)(E).

A violation of FINRA Rule 2341 also constitutes a violation of FINRA Rule 2010, which requires member firms “to observe high standards of commercial honor and just and equitable principals of trade” in the conduct of their business.

First Trust, acting through certain of its FINRA-registered wholesalers, some of whom were also supervisors (collectively, wholesalers),⁵ violated rules related to non-cash compensation and engaged in other misconduct, as described below.

A. Between 2018 and 2024, First Trust wholesalers regularly provided gifts to Client Firm representatives in connection with the sale and distribution of investment company securities that significantly exceeded the \$100 per-person annual limit. For example:

- On more than 25 occasions, two First Trust wholesalers provided Client Firm representatives with two courtside tickets to professional basketball games, at a cost of approximately \$3,200 for the pair, to use without being accompanied by a First Trust employee.
- Two First Trust wholesalers provided a Client Firm representative with tickets to a Broadway show, at a cost of more than \$1,800, for the representative to use during a trip to New York, without being accompanied by a First Trust employee.
- Two First Trust wholesalers provided tickets to a professional hockey playoff game, at a total cost significantly exceeding \$100 per ticket, to a Client Firm representative who attended the game without being accompanied by a First Trust employee.
- Certain First Trust wholesalers provided bottles of alcohol as gifts to Client Firm representatives at a cost of up to \$400 or more per bottle.

B. In addition, First Trust wholesalers provided meals and entertainment to certain Client Firm representatives in amounts that were so frequent and extensive as to raise questions of propriety. Between 2018 and 2024, First Trust wholesalers provided meals and entertainment collectively worth tens of thousands of dollars to particular Client Firm representatives. For example:

- Over an 18-month period, various First Trust wholesalers provided one Client Firm representative with tickets to a total of more than 20 concerts and sporting events, valued at more than \$31,000, including luxury suite tickets to an NBA All-Star game.
- Over a 4-year period, various First Trust wholesalers provided meals and entertainment to another Client Firm representative on dozens of occasions, including tickets to luxury suites at multiple professional sporting events,

⁵ Wholesalers are generally responsible for marketing and selling financial products to financial intermediaries such as broker-dealers and investment advisers.

concerts, and golf outings, valued at more than \$50,000. In one twelve-month period, First Trust wholesalers provided meals and entertainment to this Client Firm representative on at least 17 occasions, valued at more than \$21,000.

- C. Moreover, at least six First Trust wholesalers offered entertainment, gifts, or payments of educational event expenses that were preconditioned on Client Firm representatives achieving sales targets with respect to their customers' purchases of First Trust products. Wholesalers made such offers on multiple occasions, and on at least two occasions, the Client Firm representative subsequently achieved the sales target by selling First Trust products and was then provided the non-cash compensation offered. For example:
- A First Trust wholesaler preconditioned tickets to a professional hockey game on a Client Firm representative selling \$1 million in First Trust unit investment trusts (UITs) to his customers. The Client Firm representative's customers ultimately purchased that amount of UITs and First Trust provided the tickets to the Client Firm representative after the transaction as a gift.
 - A Client Firm representative asked a First Trust wholesaler if the Firm would pay for certain costs of an event hosted by the representative for the representative's clients. First Trust declined, but the wholesaler responded that the Firm was "Happy to do future events for you if [you want] to work together," and then stated: "I'll keep you informed of at least the fun events. \$1M turns on the green light of support. \$10M and I never say no."

As a result, First Trust violated FINRA Rules 2341(l)(5) and 2010.

2. First Trust Falsified Internal Non-Cash Compensation Records and Maintained Inaccurate Books and Records.

FINRA Rule 4511(a) requires member firms to make and preserve books and records as required under the FINRA rules, the Exchange Act, and applicable Exchange Act rules. Exchange Act § 17(a) and Exchange Act Rule 17a-3(a)(2) require firms to maintain, among other things, records reflecting all expenses. Inherent in the obligation to make and preserve books and records is the requirement that they be accurate. A violation of Exchange Act § 17(a), Exchange Act Rule 17a-3, or FINRA Rule 4511 also constitutes a violation of FINRA Rule 2010. Additionally, falsifying business records, including expense reports, constitutes a violation of FINRA Rule 2010.

First Trust required employees to submit expense reports requesting reimbursement for non-cash compensation provided to Client Firm representatives. During the relevant period, more than 40 First Trust wholesalers created and submitted false expense reports relating to more than \$650,000 worth of non-cash compensation provided to Client Firm representatives. As a result, First Trust maintained false expense reports as part of its books and records. The expense reports were false in several ways, including: (1) listing Client Firm representatives as attendees at First Trust-sponsored entertainment events even though those individuals did not attend; (2) failing to list all Client Firm

representatives who attended the events; or (3) otherwise under-reporting the value of expenses and resulting non-cash compensation provided to event attendees.

For example, in dozens of instances, First Trust wholesalers submitted expense reports that listed Client Firm representatives as attendees who were either deceased or out of the securities industry at the time of the event. At times, First Trust wholesalers coordinated with one another to falsify expense reports through text messages on personal devices, which were not subject to the Firm's surveillance.⁶ In addition, at least two supervisors suggested to wholesalers ways to submit expense reports so that the expenses merely appeared (but were not in fact) compliant with Client Firms' internal limits on non-cash compensation.

By falsifying expense records and creating and maintaining false records of non-cash compensation expenses, First Trust violated FINRA Rules 4511 and 2010, Exchange Act § 17(a), and Exchange Act Rule 17a-3.

3. First Trust Provided Client Firms With Materially False and Misleading Information About Non-Cash Compensation.

Misrepresenting a material fact or omitting information necessary to make a statement not materially misleading, in connection with business-related activities, violates FINRA Rule 2010.

Certain Client Firms placed specific limits on the dollar amount of non-cash compensation that their representatives could receive from wholesaling firms such as First Trust. To supervise and monitor their representatives' receipt of non-cash compensation, some of those Client Firms requested that First Trust submit quarterly reports detailing the non-cash compensation First Trust provided to the Client Firm's representatives.

Between 2018 and 2024, First Trust submitted at least 25 quarterly non-cash compensation reports to Client Firms that, collectively, omitted more than \$500,000 worth of non-cash compensation. These reports failed to disclose gifts and entertainment that exceeded Client Firm limits, or understated the value of entertainment to make it appear compliant with Client Firm limits. Specifically:

- As described above, First Trust wholesalers entered non-cash compensation information in internal expense reports, which included false information about the amount and nature of the non-cash compensation provided to Client Firm representatives. First Trust generated and submitted to Client Firms quarterly reports based off of the inaccurate expense reports.

⁶ First Trust previously entered into a settlement with the Securities and Exchange Commission concerning the Firm's failure to preserve and maintain records of business communications sent and received using employees' personal devices. *See First Trust Portfolios L.P.*, Exchange Act Release No. 100700 (Aug. 14, 2024).

- In addition, prior to October 2021, due to a gap in First Trust’s systems, quarterly reports submitted to Client Firms did not include tickets for concerts and sporting events (Firm-paid tickets) that had been paid for directly by First Trust (which were not submitted through the Firm’s expense reimbursement system). For example, in the 4th quarter of 2019, First Trust spent more than \$20,000 entertaining 10 representatives of one Client Firm in a luxury suite at professional football games, but First Trust omitted these expenses from its Q4 2019 report to the Client Firm. Even after First Trust modified its systems to include Firm-paid tickets in its quarterly reports, it continued to omit certain entertainment events from such reports.

As a result, First Trust violated FINRA Rule 2010.

4. First Trust Failed to Reasonably Supervise its Provision and Reporting of Non-Cash Compensation.

FINRA Rule 3110(a) requires that member firms “establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.” FINRA Rule 3110(b) requires that member firms “establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with the applicable securities laws and regulations, and with applicable FINRA rules.” A violation of FINRA Rule 3110 also constitutes a violation of FINRA Rule 2010.

Between 2018 and 2024, First Trust had policies and procedures in place governing cash and non-cash compensation. However, those policies and procedures did not provide guidance regarding how to evaluate whether non-cash compensation was too frequent or excessive. In addition, although First Trust required employees to submit expense reports for review and approval, the Firm lacked a reasonable system for supervising the accuracy of such reports. In particular, First Trust relied almost exclusively on individual wholesalers to accurately report non-cash compensation expenses, and the Firm did not take reasonable steps to verify the accuracy of those expense records.

First Trust systems also allowed employees to modify expense reports after they were submitted and approved, without reasonable controls in place to ensure that the modifications were appropriate. Some Firm employees took advantage of this gap to falsify expense reports and thereby cause the Firm to include false non-cash compensation information, or omit non-cash compensation, in quarterly reports to Client Firms. Moreover, prior to October 2021, First Trust failed to supervise a significant category of non-cash compensation provided to Client Firm representatives—Firm-paid tickets. Even after First Trust began supervising Firm-paid tickets and including such non-cash compensation in quarterly reports to Client Firms, First Trust continued to omit certain entertainment events from quarterly reports.

By failing to establish, maintain, and enforce a system, including written procedures, reasonably designed to achieve compliance with non-cash compensation rules and expense-related recordkeeping requirements, First Trust violated FINRA Rules 3110(a) and (b) and 2010.

First Trust has taken numerous actions to remediate the misconduct described in this AWC, including by committing to create a new compliance audit function that reports to executive management, and that is dedicated to testing and monitoring compliance with the rules and procedures applicable to the provision of non-cash compensation to Client Firm representatives and other sales practice issues. The Firm has also modified its supervisory systems and procedures with respect to the provision of non-cash compensation, including by implementing a system to track event tickets that is designed to ensure the accurate recording of ticket recipients. In addition, the Firm has taken disciplinary action against dozens of employees concerning the conduct at issue in this AWC, including suspending individuals without pay and imposing monetary fines and heightened supervision.

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

- a censure;
- a \$10,000,000 fine; and
- an undertaking pursuant to which Respondent agrees to provide the following certifications:
 - a. Within 12 months after the issuance of this AWC, a member of Respondent's senior management who is a registered principal of the Firm shall certify in writing that, as of the date of the certification, the Firm has implemented a supervisory system, including written procedures, reasonably designed to achieve compliance with FINRA Rules 2010, 2341, 3110, and 4511, as well as Exchange Act § 17(a) and Exchange Act Rule 17a-3, regarding the issues identified in this AWC. The certification shall include a narrative description and supporting exhibits sufficient to demonstrate Respondent's implementation. FINRA staff may request further evidence of Respondent's implementation, and Respondent agrees to provide such evidence. Respondent shall submit the certification to Adam N. Stern, Principal Counsel, 9509 Key West Avenue, Rockville, MD 20850, adam.stern@finra.org, with a copy to EnforcementNotice@finra.org.
 - b. Thereafter, on an annual basis for the next two years subsequent, a member of Respondent's senior management who is a registered principal of the Firm shall provide an updated certification to FINRA, in the same manner as described above.

- c. Upon written request showing good cause, FINRA staff may extend these deadlines.

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 an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

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 its acceptance or rejection.

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 Respondent; and
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;
 - 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 its subject matter 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 right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.
- 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.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's 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 Respondent has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

October 21, 2025

Date

W. Scott Jardine
First Trust Portfolios L.P.
Respondent

Print Name: W. Scott Jardine

Title: General Counsel

Reviewed by:

George S. Canellos

George S. Canellos
Counsel for Respondent
Milbank LLP
55 Hudson Yards
New York, NY 10001-2163

Accepted by FINRA:

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

October 31, 2025
Date

Adam Stern
Adam N. Stern
Principal Counsel
FINRA
Department of Enforcement
9509 Key West Avenue
Rockville, MD 20850