

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2014041355501**

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

RE: Santander Securities LLC, Respondent
BD No. 41791

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent 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 herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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

Santander Securities LLC ("Santander" or the "Firm") has been a FINRA member since 1996. Santander is a full-service brokerage firm and is a wholly owned subsidiary of Santander BanCorp, a financial holding company organized under the laws of the Commonwealth of Puerto Rico. The Firm is headquartered in San Juan, Puerto Rico, and currently has approximately 720 registered representatives and 690 branch offices. During the period from December 2012 through October 2013 (the "Relevant Period"), the Firm employed approximately 40 registered representatives in Puerto Rico.

RELEVANT DISCIPLINARY HISTORY

In April 2011, Santander entered into an AWC with FINRA that imposed a \$2 million fine for deficiencies in the Firm's structured-products business during the period of September 2007 through September 2008. Those deficiencies included unsuitable sales of reverse-convertible securities to retail customers in Puerto Rico and inadequate supervision of sales of structured products and accounts funded with loans from the Firm's affiliated bank. The Firm also

reimbursed more than \$7 million to its customers for losses that resulted from their purchases of reverse-convertible securities.

OVERVIEW

This matter principally concerns Santander's failure to have a reasonably designed supervisory system and procedures relating to sales of Puerto Rico Municipal Bonds ("PRMBs") to Puerto Rico customers. During the Relevant Period, Santander's systems and procedures were inadequate because, in the circumstances described below, they did not require the Firm to review or assess that its proprietary product risk-classification tool took into account the unique and changed risks of investing in PRMBs. Additionally, although Santander had certain reports to identify concentration levels and margin activity in customer accounts, the Firm did not have adequate systems and procedures in place to monitor for the appropriate use of margin in connection with the purchase of PRMBs or to monitor for potentially over-concentrated positions in PRMBs and Puerto Rico Closed-End Funds ("PRCEFs").

Further, during the period from October 2010 through April 2014 (the "Employee-Trading Period"), Santander failed to have adequate systems and procedures governing transactions in Puerto Rico employee brokerage accounts. While the Firm had a policy requiring the pre-approval of employee trades, its systems were not designed to detect transactions effected between employee brokerage accounts and the accounts of the Firm's customers. As a result, the Firm was unable to adequately monitor for potential conflicts of interest where customer orders were filled through positions in Puerto Rico employee brokerage accounts.

In resolving this matter, the Firm will pay restitution of approximately \$4.3 million.

FACTS AND VIOLATIVE CONDUCT

Background

PRMBs are a preferred investment for Puerto Rico residents due to their attractive tax status. Historically, and during the Relevant Period, PRMBs generated steady income, often at yields higher than equivalent non-Puerto Rico investments and presented significant tax advantages. For residents of Puerto Rico, PRMBs are exempt from federal, state, and local taxes, as well as Puerto Rico's estate tax. In addition, PRCEFs have similar benefits and generally are required to invest at least 67% of their portfolios in Puerto Rico securities such as PRMBs. During the Relevant Period, Santander solicited its Puerto Rico customers to purchase approximately \$180 million in PRMBs and over \$101 million in PRCEFs.

Santander's Product Risk-Classification Tool – the "Securities Master"

Throughout the Relevant Period, Santander used a proprietary system called the Securities Master that reflected, among other things, product risk classifications for securities sold by the Firm. The Firm's registered representatives used the Securities Master as a tool as part of their suitability analyses to determine whether or not the recommendations of particular securities, including PRMBs, were consistent with the risk tolerances of their Puerto Rico customers. The Securities Master reflected the risk levels that Santander assigned to PRMBs based on weightings of the (i) credit rating issued by *Standard & Poor's* (40%), (ii) product type (15%), (iii) maturity (20%), (iv) complexity, which included the measure of liquidity (15%), and (v) geography (10%). Securities were assigned a color based upon the calculated risk level – i.e., green for lower-risk products, yellow for moderate-risk products, and red for higher-risk products.

Green-coded securities were, as a general matter, deemed suitable for all investors; yellow-coded securities for moderate- and high-risk investors; and red-coded securities for high-risk or speculative investors. Throughout the Relevant Period, the vast majority of Santander's clients were moderate-risk investors. Nearly all of the PRMBs that Santander solicited customers to purchase – and that were sold to customers – were coded yellow, or moderate-risk, for the entire Relevant Period.

The Downgrade of Puerto Rico's Debt and Santander's Puerto Rico Trading Desk

On November 29, 2012, Santander began reducing its PRMBs inventory. On December 13, 2012, *Moody's* downgraded Puerto Rico's General Obligation bonds and related debt to Baa3, one step above junk-bond status. This downgrade accelerated the Firm's efforts to reduce its inventory of PRMBs, reflecting Santander's concerns about changed risks in the market for PRMBs and Santander's exposure to those risks.

The next day, on December 14, 2012, Santander closed its Puerto Rico trading desk to any new purchases of PRMBs. As a result, the Firm stopped purchasing PRMBs that its customers sought to sell. The Firm did, however, continue to process certain customer sell orders on an agency basis. On January 31, 2013, the Firm resumed buying through its trading desk a limited number of PRMBs on a short-term basis. The Firm, however, continued to reduce its market exposure and entirely eliminated its inventory of PRMBs by October 2013.

**Santander's Supervisory System Failed
to Assess the Securities Master
to Ensure That It Accurately Reflected
the Market Risks of Investing in PRMBs**

MSRB Rule G-27 requires each broker, dealer, and municipal securities dealer to supervise the conduct of its municipal securities activities to ensure compliance with MSRB rules and the federal securities laws, and requires each firm to establish and maintain a system, including written procedures, to supervise municipal securities activities that is reasonably designed to achieve compliance with the federal securities laws and MSRB rules.

Given Santander's decision to close its trading desk to new purchases of PRMBs, and in light of the unique nature of customer holdings of PRMBs – where a number of customers held relatively high concentrations of PRMBs compared with securities of other markets – and significant events related to those securities, including the *Moody's* downgrade, the Firm should have reviewed its Securities Master to assess whether to modify its risk classifications of PRMBs. During the Relevant Period, Santander's supervisory system was deficient because the Firm did not require an assessment of the Securities Master to ensure that the guidance it provided accurately reflected the market risks of investing in PRMBs under the circumstances described above.

Through this conduct, Santander violated MSRB Rule G-27.

**Santander's Deficient Supervisory System and Procedures
Regarding Concentrated Securities Purchases and Margin Use**

During the Relevant Period, many customers of Santander who were Puerto Rico residents had concentrated positions in PRMBs and PRCEFs (collectively, "PR Investments").

Even though Santander had reports that identified concentration levels in customer accounts, the Firm failed to outline any steps for brokers or supervisors to take in using the reports to assess the impact of concentrated positions on customers in connection with new purchases of PR Investments. Indeed, the Firm did not have systems or procedures in place to ensure that any systematic review was conducted of accounts with significant concentrations in PR Investments to determine whether new purchases were suitable in light of existing positions.

The Firm also did not have guidelines for registered representatives or supervisors concerning the appropriate use of margin, especially in light of customers' high concentration levels. While the Firm used various reports to identify concentration of PRMBs in margin accounts, they were not used to monitor for the suitable use of margin prior to the execution of additional purchases of PRMBs.

Accordingly, during the Relevant Period, with respect to its supervision of margin activity in PRMBs and concentration levels of PR Investments in customer accounts, Santander violated NASD Conduct Rules 3010(a) and 3010(b), FINRA Rule 2010, and MSRB Rule G-27.

**Santander Failed to Supervise Its Puerto Rico Employees' Trading
for Certain Potential Conflicts of Interest**

Santander failed to establish and maintain a reasonable supervisory system and procedures to identify and review transactions in employee and employee-related accounts with a view toward monitoring for potential conflicts of interest.

Although the Firm required pre-approval for all employee account transactions, Santander had no mechanism in place to identify employee account transactions prior to execution or to ensure that pre-approval had been obtained before transactions were executed. In addition, Santander did not have in place an effective review process for transactions in employee and employee-related accounts. Employees in the Puerto Rico office were, therefore, able to enter and effect transactions without the Firm's approval.

As a result, during the Employee-Trading Period, approximately 41%, or 1,449 of the 3,515 employee and employee-related transactions, were effected without the Firm's approval.

***Santander Failed to Identify
Employee Trades with Customers***

During the Employee-Trading Period, Santander's Puerto Rico employees were permitted to trade with their customers, where employees sold securities directly from their accounts to customer accounts or bought directly from their customers ("Contra-Transactions"), if customers were given written disclosure when a registered representative was on the other side of the transaction. Santander, however, had no mechanism in place to identify employee trades as Contra-Transactions, to monitor them for potential conflicts of interest, or to ensure that such disclosures were made.

As a result, during the Employee-Trading Period, approximately 400 transactions, involving over 40 employee and employee-related accounts and 260 customers, totaling over \$50 million in principal amount, were Contra-Transactions that went undetected by the Firm. Thus, Santander was not able to identify and mitigate potential conflicts of interest inherent in Contra-Transactions.

Certain customers whose registered representatives engaged in Contra-Transactions with them during the Employee-Trading Period suffered harm, including realized losses. As set forth below, Santander will provide restitution

and will make rescission offers for such harm to certain other customers identified on Schedules A and B.

Accordingly, during the Employee-Trading Period, with respect to employee transactions and employee's trading with their customers, Santander violated NASD Conduct Rules 3010(a) and 3010(b), FINRA Rule 2010, and MSRB Rule G-27.

- B. Respondent also consents to the imposition of the following sanctions:
1. A censure.
 2. A fine of \$2 million (\$1 million of which pertains to the violations of MSRB Rule G-27).
 3. Restitution of approximately \$4.3 million in connection with certain solicited purchases of PRMBs:
 - a. Restitution is ordered to be paid to customers with conservative and moderate risk profiles who were solicited to purchase and were sold PRMBs between December 14, 2012 and April 30, 2013 and who experienced realized losses as of March 17, 2015, excluding interest received on the PRMBs, plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. § 6621(a)(2) from the date that each customer purchased the security until the date of payment of restitution ("Restitution Interest").
 - b. Restitution is ordered to be paid to customers with conservative and moderate risk profiles who were solicited to purchase and were sold PRMBs directly from Santander's inventory account with Santander acting on a principal basis between May 1, 2013 and October 23, 2013 and who experienced realized losses as of March 17, 2015, excluding interest received on the PRMBs, plus Restitution Interest.

Santander shall exclude from this restitution order the following:

- i. Institutional customers (as defined in FINRA Rule 4512(c) or those customers that currently have on file with the Firm an institutional account questionnaire);
- ii. Employee and employee-related accounts; and
- iii. Customers who filed arbitration claims against Santander with respect to these PRMBs purchases and who either received arbitration awards or settled their arbitration claims by the date this AWC is accepted by the National Adjudicatory Council ("NAC").

4. Restitution and rescission offers in connection with certain Contra-Transactions:

- a. Restitution is ordered to be paid to those customers listed on Schedule A hereto, who purchased securities opposite their registered representatives during the Employee-Trading Period and who experienced realized losses, excluding interest received on those securities, as of March 16, 2015, in the amount of approximately \$121,000, plus Restitution Interest.
- b. Rescission offers are ordered to be made to those customers listed on Schedule B hereto, who purchased securities opposite their registered representatives during the Employee-Trading Period and who still hold the position or transferred the position out of the Firm.

A registered principal on behalf of the Firm shall submit satisfactory proof of payment of restitution or of reasonable and documented efforts undertaken to effect restitution. In addition, a registered principal on behalf of the Firm shall submit satisfactory proof of rescission offers that have been made or of reasonable and documented efforts undertaken to effect such offers. Such proof shall be submitted to Andrew T. Beirne, FINRA – Department of Enforcement, Brookfield Place, 200 Liberty Street, New York, NY 10281, either by letter that identifies Santander Securities LLC and Matter No. 20140413555 or by e-mail from a work-related account of a registered principal of the Firm to EnforcementNotice@FINRA.org. This proof shall be provided to the FINRA staff member listed above no later than 120 days after acceptance of the AWC.

Within no later than 180 days from the date the AWC is accepted, or such additional period agreed to by a FINRA staff member in writing, a registered principal on behalf of the Firm shall submit to the FINRA staff member identified above a list of customers who received restitution payments. Such list shall identify customer names, account numbers, purchase and sale transaction dates, CUSIPs, purchase and sale principal amounts, purchase and sale accrued interest amounts, interest and dividend payments, restitution amounts, Restitution Interest amounts, and restitution payment dates.

Within no later than 180 days from the date the AWC is accepted, or such additional period agreed to by a FINRA staff member in writing, a registered principal on behalf of the Firm shall submit to the FINRA staff member identified above a list of customers who accepted rescission offers. Such list shall identify customer names, account numbers, purchase and sale transaction dates, CUSIPs, purchase and sale principal amounts, purchase and sale accrued interest amounts, interest and dividend payments, rescission payment amounts, Restitution Interest amounts, and rescission payment dates.

If for any reason the Firm cannot locate any customer entitled to restitution under the parameters specified above or in Schedule A after reasonable and documented

efforts within 120 days from the date the AWC is accepted, or such additional period agreed to by a FINRA staff member in writing, Respondent shall forward any undistributed restitution and interest to the appropriate escheat, unclaimed property or abandoned property fund for the state or territory in which the customer is last known to have resided. Respondent shall provide satisfactory proof of such action to the FINRA staff member identified above and in the manner described above, within 14 days of forwarding the undistributed restitution and interest to the appropriate state or territorial authority.

The imposition of a restitution order, an order directing rescission offers, or any other monetary sanction herein, and the timing of such ordered payments, does not preclude customers from pursuing their own actions to obtain restitution or other remedies.

C. Respondent also consents to the following undertakings to review all of its current written policies and procedures:

- To ensure consistency across the Firm's policies – including the “Santander Securities Registered Representatives' Manual,” the “Sales Supervision Procedures Manual,” and the “Written Supervisory Procedures (WSP) Santander Securities” – in connection with, but not limited to, concentration levels in customer accounts, the use of margin, the supervision of customer transactions, and reports and tools available to registered representatives;
- To ensure that the section titles of the “Santander Securities Registered Representatives' Manual” conform with the index thereto; and
- To ensure all written policies and procedures have been ratified or approved and include effective dates.

Santander will implement revised supervisory systems and procedures where appropriate.

Within no later than 180 days from the date the AWC is accepted, or such additional period agreed to by a FINRA staff member in writing, a registered principal on behalf of the Firm shall submit to the FINRA staff member identified above certification that the Firm has complied with the undertakings set forth in Subsection C, above.

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

Respondent specifically and voluntarily waives any right to claim that the Firm is unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

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 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 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 prejudice 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.

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 the Firm; and

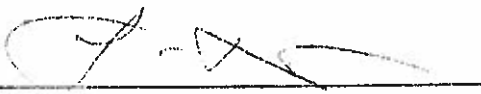
C. If accepted:

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 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 the subject matter thereof 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: (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. 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 the Firm 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.

9/18/2015
Date (mm/dd/yyyy)

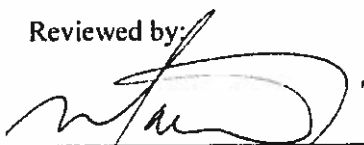

Respondent

Santander Securities LLC

By: Luis Rolz

Title: CFO

Reviewed by:

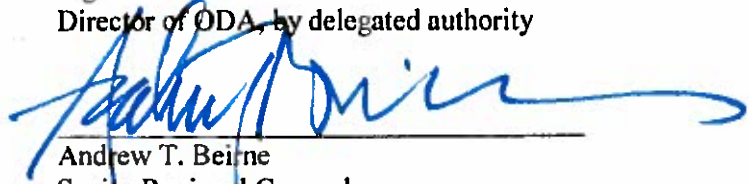
A handwritten signature in black ink, appearing to read 'Barry W. Rashkover', written over a horizontal line.

Barry W. Rashkover, Esq.
Madeleine J. Dowling, Esq.
Counsel for Respondent
Sidley Austin LLP
787 Seventh Avenue
New York, NY 10019
Phone: 212-839-5574

Accepted by FINRA:

10/13/2015
Date

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



Andrew T. Beirne
Senior Regional Counsel
FINRA Department of Enforcement
Brookfield Place
200 Liberty Street
New York, NY 10281
Phone: 212-858-4080
Fax: 202-721-6565

SCHEDULE A
FINRA AWC
SANTANDER SECURITIES, LLC No. 20140413555
September 18, 2015

Transaction Number	Santander Account
1	PJSL
2	OH
3	AJ
4	RJP
5	DPBI
6	RMRP

SCHEDULE B
FINRA AWC
SANTANDER SECURITIES, LLC No. 20140413555
September 18, 2015

Transaction Number	Santander Account
1	MLDLRVD
2	LSM
3	MLRC
4	MRS
5	AEC
6	MRS
7	FPJ
8	TI
9	FPJ
10	JMDH
11	JMDH
12	JETF
13	LRMG
14	BHI
15	JETF
16	BHI
17	FPJ
18	ARLR
19	CAG
20	JPM
21	MRS
22	EJ
23	ARR
24	RDT
25	RDT
26	RDT
27	RDT

SCHEDULE B
FINRA AWC
SANTANDER SECURITIES, LLC No. 20140413555
September 18, 2015

Transaction Number	Santander Account
28	RDT
29	SRR
30	SRR
31	SRR
32	SRR
33	RDT
34	RDT
35	RDT
36	RDT
37	EJJ
38	RMRP