FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2014041823201

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

RE: Stephens Inc., Respondent
CRD No. 3496

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

I.

ACCEPTANCE AND CONSENT

A. Stephens 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

Stephens has been a FINRA member since 1950 and its principal place of business is in Little Rock, Arkansas. The firm has approximately 680 registered personnel and provides a full range of financial services, including investment banking, underwriting debt and equity securities, and equity research. It is a full-service broker-dealer and trades securities for institutional and retail customers.

The firm's research department includes approximately 31 FINRA-licensed equity research analysts who write research reports published by Stephens, as well as research associates, support staff, and research management. The firm publishes coverage-relative investment ratings (e.g., "overweight," "equal weight," and "underweight"), target share prices, and earnings estimates with respect to all covered companies, which are mostly small and mid-cap issuers. Changes to the firm's published investment ratings of covered stocks are considered by the firm to be sensitive internal information and cannot be made without supervisory review and approval.

RELEVANT DISCIPLINARY HISTORY

Stephens has no relevant disciplinary history.

OVERVIEW

From at least August 2013 through January 2016, respondent Stephens did not adequately supervise the content and dissemination of firm-wide "flash" emails through which its research analysts alerted other firm personnel to news and insights concerning companies and industries covered by the firm's research department. The firm also failed to establish, maintain, and enforce adequate written supervisory procedures concerning securities trading in connection with these flash emails.

These failures collectively created the risk that flash emails could potentially include material nonpublic information that might be misused by sales and trading personnel. By virtue of the foregoing, Stephens violated NASD Rule 3010 and FINRA Rules 3110, 5280(b), and 2010.[1] The firm hereby agrees to a censure, a $900,000 fine, and certain remedial actions described below.

FACTS AND VIOLATIVE CONDUCT

1. Flash Emails and Related Supervisory Deficiencies

Stephens research analysts often possess material nonpublic information regarding the firm's potential and pending research, including their analyses, ratings, and views of covered companies. That information could potentially be used for advantageous trading before such analysis, ratings, or views are publicly disseminated in approved research reports. Federal securities law and FINRA rules restrict the dissemination of such information prior to publication.

Within this regulatory framework, Stephens created the "flash" email program to supplement its published research with frequent communications among research analysts and sales and trading personnel. Flash emails were intended to provide Stephens research analysts with an expeditious way to share publicly-available facts—such as media reports, press releases, and earnings calls—with the firm's sales and trading personnel, who could then expeditiously convey that information to firm customers interested in the particular companies. Throughout the relevant period, the firm's research analysts frequently used the flash email program and they collectively sent thousands of such emails to convey information about the companies and industries they were covering.

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[1] FINRA Rule 3110 superseded NASD Rule 3010 on December 1, 2014. Therefore, NASD Rule 3010 applies to conduct before that date and FINRA Rule 3110 applies to conduct on or after that date.

During the relevant period, the firm's policies and procedures prohibited research analysts from communicating a change or a decision to make a change in a rating, estimate, or target internally or externally, verbally or in writing, before a research report announcing the change was published. Moreover, under the firm's policies, if an event or news occurred that could result in a change, a research analyst could communicate only the substance of the event or news, publicly-announced guidance from issuer management, and the fact that the research analyst was reviewing his or her ratings. All research reports were subject to supervisory review and approval prior to publication.

The firm's policies and procedures regarding the content of flash emails did not provide additional guidance or restrictions beyond stating that research analysts were prohibited from previewing ratings, earnings estimates, and price target changes in flash emails. As for distribution, the policies and procedures stated that flash emails must be marked "For Internal Use Only-Not for Outside Distribution." In light of this restriction, flash emails were not subject to the level of systematic supervisory review and approval applied to published research, either before or after they were circulated, unless an issuer mentioned in the email was on a firm restricted list. Moreover, flash emails did not contain the disclosures required by SEC regulations and FINRA rules for published research.

Although the flash email program was intended to convey only publicly-available information, the firm did not have adequate policies and procedures to supervise the content of the flash emails, and in practice flash emails sometimes conveyed more than that. Some contained information that could be understood to implicitly reveal how new public information might affect the analyst's opinion of a company, or information from which a reader might infer a potential change in the analyst's thinking about the rating, earnings estimates, or price target. Others included discussion of trading ideas or potential short-term share-price movements, sometimes in a manner that had not previously appeared in, or differed from, published research. Still others, contrary to firm policy, referenced the analyst's private discussions with the covered company's management. Finally, in at least one instance, after market hours and contrary to firm policy, a research analyst simply cut and pasted into a flash email the draft text of a pending research report, which was then subsequently published before the market opened the next day.

Similarly, although flash emails were marked for internal use only, Stephens personnel sometimes forwarded them to firm customers or cut and pasted the text of a flash email into a separate communication sent to a firm customer. Although contrary to firm policy, the firm did not have effective monitoring or supervisory systems in place to detect or prevent them. More frequently, as contemplated by the flash program, firm employees summarized the import of flash emails in separate written or oral communications with clients. In addition, research analysts frequently spoke with firm clients who had received information

conveyed in flash emails, either in one-on-one conversations or in multi-party calls involving sales and trading personnel and the client. Also, sales and trading personnel sometimes spoke with research analysts about flash emails within the context of making personal trading decisions.

While Stephens expected sales and trading personnel to convey the information contained in flash emails promptly to interested clients, the firm did not have a specific prohibition against trading by firm personnel after the distribution of flash emails, including those potentially containing material nonpublic information, and did not effectively monitor for trading surrounding such flash emails. When the firm published a research report containing a ratings change, firm policy prohibited employees from trading the securities of the affected issuer in the direction of the new rating during the two business days *following* publication of the report. However, the firm did not systematically monitor for trading that occurred shortly *before* the publication of research reports containing rating, estimate, or price target changes or during the period between the time a flash email was distributed and the publication of a subsequent research report containing such changes.

2. Illustrative Scenarios

The firm's failure to effectively supervise flash emails is illustrated by the following examples.

Company A

In early August 2013, Stephens published a relatively positive research report on Company A in which the firm increased its share-price target from $20 per share to $23, estimated current-quarter earnings at $0.50 per share, and maintained its "overweight" rating. At the time, the $0.50 earnings per share estimate was the lowest among five research firms that contributed to the consensus estimate for Company A.

On August 13, 2013, the Stephens research analyst who covered Company A sent a flash email. The email referenced, among other things, "our conversation with [Company A] management today," Stephens's previously published earnings estimate for the third quarter, and some newly-published government information. It also predicted that Company A would "miss consensus" estimates for its third quarter earnings, explained why Stephens's previously published estimate was correct, and included analysis to support this thesis that did not appear in in the firm's prior research report. Following internal distribution of this flash email, firm sales and trading personnel contacted several customers to discuss the content of the email. The next day, August 14, 2013, the analyst who wrote the flash email also spoke to multiple firm customers about the analysis. In addition,

at least four Stephens employees sent the content of the flash email nearly verbatim to firm customers.

Before the market opened on August 15, 2013, Stephens published a research report in which it downgraded Company A from "overweight" to "equal weight," and reduced its price target and fiscal 2013 earnings estimate. Company A's share price declined approximately 11% that day. Although the August 15 published report included additional information the analyst learned on August 14 that affected the analyst's view of Company A's twelve-month prospects, significant amounts of the content in the published report closely reflected the themes and analysis in the August 13 flash email. Some of the employees and clients who received or learned about the flash email traded advantageously in Company A securities in the period between the distribution of the August 13 flash email and the publication of the August 15 research report.

Company B

On July 29, 2015, after the market closed, a Stephens research analyst distributed a flash email analyzing a recent earnings announcement by Company B. Although the email made no reference to any change from the analyst's previously published rating, price target, or earnings estimates, it explicitly noted that its substantive content had been cut-and-pasted from a pending research report the analyst was then drafting, which had not yet been approved or published. The next day, before the market opened, Stephens published the research report reflecting, verbatim, the same analysis articulated in the flash email.

Companies C and D

In September 2015, a Stephens research analyst distributed a flash email reporting that he had spoken the previous day with the chief financial officer of Company C and that the conversation had "reinforce[d]" his "bullish stance." This statement violated Stephens's research department's policy against referencing discussions with covered company management in research products, but this violation was not detected by the firm.

Several weeks later, the same research analyst distributed a flash email that warned recipients to "stay clear of anything hospital volume related into the quarter...and particularly the physician staffing folks [including Company C and Company D]." At the time, this advice to "stay clear" of Companies C and D in the short-term had not been included in the firm's published research, which included "overweight" ratings for both companies. Because of the inadequacies in the firm's policies and procedures, it did not take steps to ensure that the analyst's new short-term recommendation did not conflict with published research and was not selectively disseminated.

Company E

In January 2016, a Stephens research associate began drafting a flash email about a press release issued that morning by Company E. While the research associate was drafting the flash email, a Stephens institutional salesperson called him to discuss the Company E press release. After the call, the research associate forwarded his current draft of the flash email to the salesperson, who subsequently forwarded it to a firm client.

After forwarding the draft to the salesperson, the research associate then completed the flash email in which, contrary to firm policy, the associate included new earnings per share estimates. At the time, Company E was coincidentally on a restricted list at Stephens for reasons unrelated to the flash email. As a result, the research associate sent the flash email to the firm's legal and compliance departments for review and approval before distributing it firm-wide. The flash was not approved for distribution, and in the course of its review, the compliance department identified the inappropriate distribution of the draft flash message to the salesperson. The firm thereafter terminated the salesperson and disciplined the research associate.

VIOLATIONS

NASD Rule 3010 and FINRA Rules 3110 and 2010

FINRA Rule 3110(a) requires each member firm to "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," including FINRA rules. Pursuant to FINRA Rule 3110(b), each member firm is required to "establish, maintain, and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations," including FINRA rules. NASD Rules 3010(a) and (b), the respective predecessors to FINRA Rules 3110(a) and (b), contained substantively identical requirements. Although the flash email program was intended to convey only publicly available information, the program created a substantial risk that material research changes or conclusions in pending research could be disclosed in flash emails to firm personnel and subsequently to clients. In light of this risk, Stephens failed to establish, maintain, and enforce adequate systems and procedures to supervise flash emails and related trading reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable FINRA rules. The firm's supervisory systems and procedures were not reasonably designed to achieve compliance with applicable securities laws and regulations and FINRA Rules because: (i) they did not provide sufficient guidance on flash email content; (ii) they did not provide for sufficient supervisory review of flash emails, either before or after distribution; (iii) there

was insufficient supervision and monitoring to prevent the forwarding of internal-use-only emails outside of the firm; (iv) there was insufficient supervision and monitoring of research analyst communications to prevent and detect the disclosure or previewing of material, non-public changes to an analyst's published research; and (v) the firm did not employ reasonable systems to prevent and detect trading after the distribution of flash emails potentially containing material nonpublic information.

By failing to establish, maintain, and enforce such systems and procedures, Stephens violated NASD Rule 3010 and FINRA Rule 3110. By virtue of these violations, Stephens also violated FINRA Rule 2010.

FINRA Rules 5280(b) and 2010

FINRA Rule 5280(b) requires that each member firm "establish, maintain and enforce policies and procedures reasonably designed to restrict or limit the information flow between research department personnel, or other persons with knowledge of the content or timing of a research report, and trading department personnel, so as to prevent trading department personnel from utilizing non-public advance knowledge of the issuance or content of a research report for the benefit of the member or any other person."

Stephens failed to establish, maintain, and enforce policies and procedures reasonably designed to restrict or limit the information flow between research department personnel and trading department personnel so as to prevent trading department personnel from using material, non-public analyst research for the benefit of the firm,[2] its employees, and its customers. The firm's policies and procedures were not reasonably designed because: (i) they did not include sufficient supervision and monitoring of communications between research and trading personnel, including flash emails, to prevent and detect potential trading based on non-public information in those emails before disclosure in published research; and (ii) they did not include sufficient supervision and monitoring of communications between trading personnel and firm customers to prevent and detect potential trading ahead of research.

By failing to establish, maintain, and enforce such policies and procedures, Stephens violated FINRA Rule 5280(b). By virtue of these violations, Stephens also violated FINRA Rule 2010.

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[2] While Stephens facilitates customer trading, it does not conduct any proprietary trading for its own accounts.

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

- A censure;
- A $900,000.00 fine; and
- To comply with the following undertakings:

    1. Within 60 days of the date of the Notice of Acceptance of this AWC, Stephens shall certify to FINRA in a submission signed by an officer of the firm that Stephens has ceased distributing flash emails.

    2. Within 90 days of the date of Notice of Acceptance of this AWC, submit to FINRA a written plan of how it will undertake to conduct a comprehensive review of the adequacy and implementation of its policies and procedures (written and otherwise) and training relating to the conduct addressed in this AWC, including prevention and detection of: (i) the selective dissemination of potentially material non-public research analyst work product; (ii) trading ahead of the publication of research; and (iii) research analyst distribution of work product containing or utilizing material non-public information obtained directly from covered companies in potential violation of federal securities laws.

       FINRA will review the plan submitted by Stephens. If FINRA determines that the plan reasonably complies with the specific requirements set forth in this AWC, and is in keeping with the general purpose of the undertaking, FINRA will notify Stephens that it does not object to the plan. The date that FINRA notifies Stephens that it does not object to the plan shall be the Notice Date.

       In the event FINRA objects to the plan, Stephens may address FINRA's objection(s) and resubmit the plan within 30 days of being notified of FINRA's objection(s). A failure to resubmit to FINRA a plan that is reasonably designed to meet the specific requirements and general purpose of the undertaking shall be deemed a violation of the terms of this agreement.

       At the conclusion of the review, which shall be no more than 120 days after the Notice Date, Stephens shall certify to FINRA in a submission signed by an officer of the firm that its policies, procedures, and training in the areas specified above are implemented and are adequate and reasonably designed to address the conduct at issue in this AWC. In providing this certification, the firm shall describe the review performed and the conclusions reached.

Upon written request showing good cause, FINRA staff may extend any of the procedural dates set forth above.

3. In the event Stephens intends to reinstate the distribution of flash emails, or a functionally equivalent practice, the firm will first notify FINRA in writing of the firm's intent and retain an independent consultant to design and implement the firm's policies, procedures, and systems relating to that practice to address the conduct at issue in this AWC.

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 that it 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

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 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 me; and

C. If accepted:

1. this AWC will become part of Respondent'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 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.

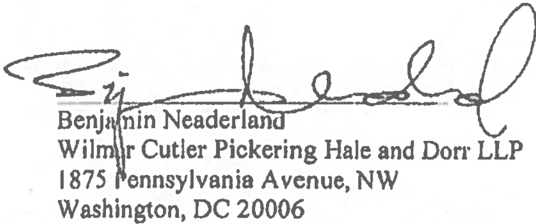
04/27/2016
Date (mm/dd/yyyy)

Stephens Inc.
Stephens Inc.

By: David A. Knight

Title: EVP and General Counsel

Reviewed by:



Benjamin Neaderland
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Accepted by FINRA:

May 11, 2016
Date

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

Russell G. Ryan
Senior Vice President & Counsel
FINRA Department of Enforcement
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