

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2016049784101**

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

RE: Wells Fargo Securities LLC
CRD No. 126292

Wells Fargo Prime Services LLC
CRD No. 133068

Pursuant to FINRA Rule 9216 of FINRA’s Code of Procedure, Respondents Wells Fargo Securities LLC (“WFS”) and Wells Fargo Prime Services LLC (“WFPS,” together with WFS, “WF,” the “Firms” or “Respondents”), submit 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 Respondents alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondents hereby accept and consent, 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

WFS has been a FINRA member since 2003. WFS, headquartered in Charlotte, NC, engages in a general securities business, offering capital market services primarily to institutional investors. It employs approximately 3,121 registered representatives and approximately 383 non-registered fingerprint persons. WFS maintains 57 branch offices nationwide.

WFPS has been a FINRA member since 2004. WFPS, headquartered in San Francisco, CA, engages in prime brokerage services business, primarily for institutional investors. It employs 114 registered representatives and 16 non-registered fingerprint persons. WFPS maintains 2 branch offices nationwide.

RELEVANT DISCIPLINARY HISTORY

Respondents have no relevant disciplinary history.

OVERVIEW

Beginning in October 2014 and continuing to the present (the “Relevant Period”), WF failed to maintain a vast number of electronic brokerage records in non-erasable and non-rewritable format, known as WORM format, as required by Section 17(a) of the Exchange Act of 1934 (the “Exchange Act”), Rule 17a-4(f) thereunder and FINRA Rule 4511. WF’s WORM-related deficiencies primarily occurred from February 2015 through April 2016 when, during this time, WF failed to maintain approximately 350 million records in WORM format. WORM stands for “write once, read many,” and is intended to prevent the alteration or destruction of broker-dealer records stored electronically.

During the Relevant Period, the Firms also experienced related audit and attestation deficiencies affecting the ability to adequately retain and preserve electronic records, in violation of Exchange Act Rule 17a-4(f) and FINRA Rule 4511. Finally, the Firms failed to enforce written supervisory procedures relating to the WORM requirement, in violation of NASD Rule 3010 and FINRA Rule 3110.

FACTS AND VIOLATIVE CONDUCT

Over the past decade, the volume of sensitive financial data stored electronically by broker-dealers has risen exponentially. These broker-dealer electronic records must be complete and accurate, not only to assist FINRA and other regulators in their efforts to protect investors through periodic examinations, but also to ensure member firms can carry out their audit functions. Recent years also have seen increasingly aggressive attempts to hack into electronic data repositories, enhancing the need for firms to keep these records in WORM format.

Section 17(a) of the Exchange Act and Rule 17a-3 thereunder require broker-dealers to make certain records relating to its business, including trade blotters, asset and liability ledgers, order tickets, trade confirmations and other records. Rule 17a-4 specifies the manner and length of time that those records must be maintained.

FINRA Rule 4511 provides, in part, that each member “shall make and preserve books and records as required under the FINRA rules, the Exchange Act and the applicable Exchange Act rules” ... and all “books and records required to be made pursuant to the FINRA rules shall be preserved in a format and media that complies with” Rule 17a-4.

These requirements are an essential part of the investor protection function because preservation of these records is the “primary means of monitoring compliance with applicable securities laws, including antifraud provisions and financial responsibility standards.”¹

¹ Commission Guidance to Broker Dealers on the Use of Electronic Storage Media under the Electronic Signatures in Global and National Commerce Act of 2000 with Respect to Rule 17a-4(f), SEC Interpretation Release No. 34-44238, 17 C.F.R. Part 241, at p. 3 of 15 (May 1, 2001).

1. WF Failed to Retain Electronic Records in WORM Format

When broker-dealers use electronic storage media to retain records, Rule 17a-4(f)(2)(ii) requires the firms to “[p]reserve the records exclusively in a non-rewritable, non-erasable” or WORM format. Respondents share an enterprise-wide retention system, employing a variety of systems and storage media. During the Relevant Period, WF failed to retain in WORM format a vast number of electronic records pivotal to their brokerage businesses. The deficiency spanned multiple systems and affected 35 categories of electronic broker-dealer records, including 13 types of transaction-related records.

WF failed to maintain in WORM format the vast majority of these records during the period February 2015 through April 2016 when, during this period, due to an error involving one data repository, the Firms failed to maintain approximately 350 million brokerage records in WORM format. For example, during this period, WF failed to retain in WORM format approximately 128 million records on blotters of purchases, sales, receipts and deliveries of securities, and approximately 120 million records on registers of purchases, sales, receipts and deliveries of securities, credits and debits for cash and margin accounts of customers of WF.

Based on the foregoing, WF violated Exchange Act Rule 17a-4(f)(2)(ii) and FINRA Rules 4511 and 2010.

2. WF Failed to Implement an Audit System Regarding the Inputting of Records in Electronic Storage Media

Exchange Act Rule 17a-4(f)(3)(v) requires a broker-dealer to “have in place an audit system providing for accountability regarding inputting of records required to be maintained and preserved pursuant to Rules 17a-3 and 17a-4 to electronic storage media and inputting of any changes made to every original and duplicate record maintained and preserved thereby.” During the Relevant Period, the Firms did not have an audit system as required by Rule 17a-4(f)(3) for those records they failed to maintain in WORM format.

Based on the foregoing, the Firms violated Exchange Act Rule 17a-4(f)(3)(v) and FINRA Rules 4511 and 2010.

3. The Firms Failed to Obtain an Attestation from Third-Party Vendors

Exchange Act Rule 17a-4(f)(3)(vii) requires a broker-dealer using electronic storage media to retain a third-party vendor “who has access to and the ability to download information from the [broker-dealer’s] electronic storage media” to any acceptable medium and to obtain an undertaking from the vendor that it will provide these records to the SEC, FINRA or any other regulatory authority in the event the firm is unable to provide the records. During the Relevant Period, the Firms failed to obtain an attestation from several of their third-party vendors that they will supply electronically stored records to regulatory authorities in the event the Firms are unable to provide the electronically stored records.

Based on the foregoing, the Firms violated Exchange Act Rule 17a-4(f)(3)(vii) and FINRA Rules 4511 and 2010.

4. The Firms' Supervisory System was not Reasonably Designed

NASD Rule 3010(b) and FINRA Rule 3110(b) both require a member firm to establish, maintain and enforce written procedures to supervise the types of business in which it engages that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.² During the Relevant Period, WF failed to enforce written procedures concerning the storage of electronic broker-dealer records, as required by Exchange Act Rule 17a-4 and FINRA Rule 4511.

Based on the foregoing, WF violated NASD Rules 3010(b) and FINRA Rules 3110(b) and 2010.

B. Respondents also consent to the imposition of the following sanctions:

1. Censure; and
2. Fine in the amount of \$4 million (to be paid jointly and severally).

Respondents also consent to the following undertaking:

3. Review of Policies and Procedures:
 - a. Within 60 days of Notice of Acceptance of this AWC, the Chief Compliance Officers of the Firms shall submit to FINRA a written plan of how the Firms will undertake to conduct a comprehensive review of the adequacy of the relevant policies and procedures (written and otherwise), including a description of remedial measures leading to full compliance, relating to the conduct addressed in this AWC.
 - b. FINRA will review the plan submitted by the Firms. In the event FINRA objects to the plan, the Firms shall address FINRA's objections and resubmit the plan within 30 days of being notified of FINRA's objections.
 - c. If the Firms' proposed plan is not unacceptable to FINRA, the Firms shall promptly implement its comprehensive review.
 - d. At the conclusion of the Firms' comprehensive review, which shall be no more than 180 days after the Notice of Acceptance of the AWC, the Chief Compliance Officers for the Firms shall certify in writing to FINRA that the Firms have adopted and implemented policies and procedures reasonably designed to achieve compliance with the federal securities laws and FINRA rules addressed in this AWC.
 - e. Upon written request showing good cause, FINRA staff may extend any of the procedural dates set forth above.

Respondents agree to pay the monetary sanction upon notice that this AWC has been accepted

² FINRA Rule 3110 replaced NASD Rule 3010, effective December 1, 2014.

and that such payment is due and payable. Respondents have submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondents specifically and voluntarily waive any right to claim that they are 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

Respondents specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against them;
- 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, Respondents specifically and voluntarily waive 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.

Respondents further specifically and voluntarily waive 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

Respondents understand 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 Respondents; and
- C. If accepted:
 - 1. this AWC will become part of Respondents’ permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against them;
 - 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. Respondents 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. Respondents 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 Respondents’: (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. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they 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 Respondents, certify that a person duly authorized to act on Respondents' 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 Respondents have 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 Respondents to submit it.

Dec 14, 2016
Date (mm/dd/yyyy)


Wells Fargo Securities, LLC


By: Jonathan G Weiss, President

Date (mm/dd/yyyy)

Wells Fargo Prime Services, LLC

By: _____

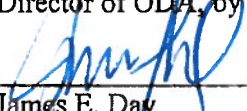
Reviewed by:
Michael D. Wolk
Sidley Austin LLP
1501 K Street, NW
Washington, DC 20005
Phone: 202-736-8807


Counsel for Respondents

Accepted by FINRA:

12/21/16
Date

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


James E. Day
Vice President & Chief Counsel
FINRA Department of Enforcement
15200 Omega Drive, Third Floor
Rockville, MD 20850
Phone: 301-258-8520

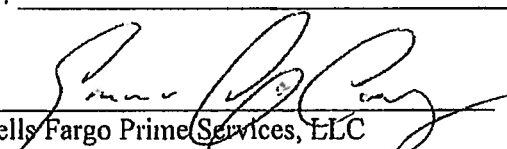
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Date (mm/dd/yyyy)

Wells Fargo Securities, LLC

12/14/16

Date (mm/dd/yyyy)

By: _____


Wells Fargo Prime Services, LLC

By: Eamon McCoey

Reviewed by:
Michael D. Wolk
Sidley Austin LLP
1501 K Street, NW
Washington, DC 20005
Phone: 202-736-8807

Counsel for Respondents

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