

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2020065474002**

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

RE: Lincoln Financial Distributors, Inc. (Respondent)
Member Firm
CRD No. 145

Pursuant to FINRA Rule 9216, Respondent Lincoln Financial Distributors, Inc. 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

Lincoln has been a FINRA member since 1967. The firm, which has over 1,000 registered representatives and eight branch offices, is primarily involved in wholesale distribution of variable insurance products and mutual funds.¹

OVERVIEW

Between March 2018 and September 2019, Lincoln indirectly paid approximately \$2.9 million in transaction-based compensation to an unregistered entity in violation of FINRA Rules 2040 and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from a regulatory tip received by FINRA.

FINRA Rule 2040 prohibits member firms and associated persons from paying, directly or indirectly, any compensation, fees, concessions, discounts, commissions or other allowances to any person that is not registered as a broker-dealer under the Exchange Act but, by reason of receipt of any such payments and the activities related thereto, is required to be so registered. A violation of FINRA Rule 2040 also constitutes a violation

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

of FINRA Rule 2010, which requires members to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business.

Lincoln caused payments totaling approximately \$8.7 million in transaction-based compensation to be paid to an unaffiliated selling broker-dealer in connection with the sale of variable universal life insurance (VUL), a securities product. Of this amount, Lincoln directed that a portion of those funds be paid to an unregistered entity. The unregistered entity was a limited liability company not affiliated with Lincoln and primarily owned by an insurance agent who was not registered with FINRA. One of the selling broker-dealer's registered representatives also held a minority stake in the entity. From March 2018 to September 2019, consistent with Lincoln's directives, the selling broker-dealer paid approximately \$2.9 million in transaction-based compensation to the unregistered entity.

Lincoln, its affiliated life insurance company, the selling broker-dealer, and the unregistered entity were parties to a Variable Marketing Agreement which provided that the unregistered entity would receive transaction-based compensation for providing a variety of services to facilitate VUL sales, including distributing sales materials and assisting with sales promotional activities.² Although the Variable Marketing Agreement required the parties to comply with the federal securities laws and further attempted to delegate supervisory responsibility surrounding the sales activities to the selling broker-dealer, it failed to contain all the terms and conditions necessary to ensure that the unregistered entity, by reason of receipt of the payments and the activities related thereto, was not required to be registered as a broker-dealer under the Exchange Act.

Therefore, Lincoln violated FINRA Rules 2040 and 2010.

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

- a censure; and
- a \$300,000 fine.

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.

² The Variable Marketing Agreement was separate from a pre-existing selling agreement that otherwise addressed the sale of variable products and required the parties to comply with applicable federal securities laws in connection with the sale of variable products.

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

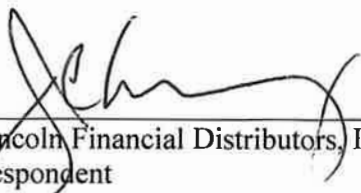
C. If accepted:

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.


7/1/2024
Date


Lincoln Financial Distributors, Inc.
Respondent

Print Name: John C. Kennedy

Title: President


Reviewed by:


Bradley J. Bondi
Counsel for Respondent
Paul Hastings LLP
2050 M Street NW
Washington, DC 20036

Accepted by FINRA:

July 8, 2024
Date

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


Christopher Conroy
Counsel
FINRA
Department of Enforcement
200 Liberty Street
New York, NY 10281