FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2012034123501

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

RE: Wells Fargo Advisors, LLC, Respondent
CRD No. 19616
Wells Fargo Advisors Financial Network, LLC, Respondent
CRD No. 11025

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondents, Wells Fargo Advisors, LLC ("WFA") and Wells Fargo Advisors Financial Network, LLC ("WFAFN"), 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 either Respondent 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

WFA is a full-service broker-dealer that became a FINRA-registered firm in 1987. It has nearly 27,000 registered representatives located throughout its headquarters and in more than 7,000 branches. Its headquarters are in St. Louis, Missouri.

WFAFN is a full-service broker dealer that became a FINRA-registered firm in 1983. WFAFN is under common control with WFA and has nearly 1,900 registered representatives and nearly 700 branch offices.

OVERVIEW

For more than nine years, WFA and WFAFN failed to comply fully with a key aspect of the Anti-Money Laundering ("AML") compliance program requirements for broker-dealers. To satisfy those requirements, every broker-dealer must establish and maintain a Customer Identification Program ("CIP") under which it verifies the identity of each customer opening a new account. From

October 1, 2003 through October 19, 2012 (the "relevant period"), the firms' CIP was deficient, in that it did not subject certain new customers to identity verification.

During the relevant period, when the firms' transaction-processing system assigned customer identifiers to new securities accounts, it sometimes recycled identifiers previously assigned to accounts that had been closed. When this happened, the CIP system recognized the identifiers and treated the new accounts as if they had already gone through the CIP system. For that reason, the firms' CIP system did not verify the identities of new customers with recycled identifiers. This resulted in the firms' failure to conduct customer-identity verification for nearly 220,000 accounts during the relevant period.

Through this conduct, WFA and WFAFN violated NASD Rules 3011(b) and 2110 and FINRA Rules 3310(b) and 2010.[1]

FACTS AND VIOLATIVE CONDUCT

1. As part of its Customer Identification Program, a broker-dealer must verify the identity of each of its customers.

As part of the AML compliance program requirements imposed by the USA PATRIOT Act of 2001, the Bank Secrecy Act ("BSA"), and accompanying regulations ("CIP rule"), every FINRA broker-dealer must establish and maintain a written CIP. The CIP rule requires a broker-dealer to verify the identity of each customer.

On April 30, 2003, the Securities and Exchange Commission and the Department of Treasury jointly issued a final CIP rule requiring every registered broker-dealer to establish, document, and maintain procedures for identifying customers and verifying their identities.[2] Under the rule, a broker-dealer must obtain certain minimum identifying information from each customer prior to opening an account, maintain records of that identity-verification process, and provide customers with notice that information is being collected to verify their identities. In addition, every broker-dealer's CIP must include supplemental risk-based procedures that enable the broker-dealer to form a reasonable belief that it knows the true identity of each customer.

FINRA Rule 3310(b), which superseded NASD Rule 3011(b) as of January 1, 2010, requires every FINRA-registered firm to implement a written AML compliance program that is reasonably designed to achieve compliance with the requirements of the BSA and the BSA's implementing regulations promulgated by the Department of Treasury.

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1 NASD Conduct Rule 3011 was retired and superseded by FINRA Rule 3310 as of January 1, 2010. FINRA Rule 2010 superseded NASD Conduct Rule 2110 effective December 15, 2008.

2 31 C.F.R. § 103.122.

2. From 2003-2012, WFA and WFAFN failed to subject nearly 220,000 accounts to customer-identity verification.

WFA and WFAFN have shared a proprietary system to implement their CIP since the October 1, 2003 deadline for compliance with the CIP rule. The firms' electronic CIP system works in concert with their transaction-processing system, BETA. When a customer establishes a new account at either WFA or WFAFN, BETA assigns a certain customer identifier to the new account. As part of the account-opening process, a file listing all new accounts created in BETA is then sent to the firms' CIP system on a daily basis for verification of customer identities.

During the relevant period, when assigning customer identifiers to newly opened accounts, BETA sometimes reused identifiers that were previously associated with closed accounts. Consequently, the CIP system often received notification from BETA of new accounts with customer identifiers for which it had already performed identity verification. The CIP system recognized the "recycled" identifiers, but did not recognize that they were now assigned to new customer accounts. Thus, even though the appurtenant customer information – such as customer name, address, tax-identification number, and date of birth – was different from the previous instance of identity verification, the CIP system did not subject the customers associated with these new accounts to identity verification.

The design flaw described above persisted for more than eight years. In January 2012, through the firms' compliance department self-test of CIP processes, which is known internally as a Compliance Risk Analysis System (CRAS) test, the firms detected four accounts that had not been subjected to identity verification. The CRAS test is separate from the firms' AML independent test. In March 2012, after testing the system and identifying the reason for the failure, WFA and WFAFN reprogrammed the CIP system to perform non-documentary identity verification for all new customers, regardless of customer identifier. Although this design flaw affected the firms' CIP systems, the firms did not find that it affected other aspects of their AML programs.

Due to this design flaw, WFA and WFAFN failed to subject customers associated with approximately 220,000 new accounts to identity verification. This was more than 3% of the 6.9 million customer accounts opened by the firms during the relevant period. Of the accounts that were not subjected to identity verification, approximately 120,000 were already closed when the problem came to light. These accounts were never subjected to identity verification. The accounts that were still open when WFA and WFAFN discovered the design flaw were subsequently sent through the CIP process, with the firms eventually prohibiting further activity in 345 accounts for which identity verification could not be completed.

Through the foregoing conduct, WFA and WFAFN violated NASD Rule 3011(b), (for conduct occurring before January 1, 2010), FINRA Rule 3310(b) (for conduct on or after January 1, 2010), NASD Conduct Rule 2110 (for conduct occurring before December 15, 2008), and FINRA Rule 2010 (conduct occurring on or after December 15, 2008).

OTHER FACTORS

In determining the appropriate sanctions, FINRA considered that WFA and WFAFN discovered the CIP-related violations through the CRAS test, investigated their causes and scope, performed remediation CIP on the approximately 100,000 affected accounts that remained open, made programming changes to the CIP system and to BETA in an effort to prevent recurrences, and reported the violations to FINRA in accordance with Rule 4530(b).

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

- A joint and several fine of $1.5 million and censures of both WFA and WFAFN.

Respondents agree to pay the monetary sanction upon notice that this AWC has been accepted and that such payments are due and payable. Respondents have submitted an Election of Payment form showing the method by which they propose 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 sanctions imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

Respondents each specifically and voluntarily waive 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, Respondents each 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 each 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 either Respondent; and

C. If accepted:

1. This AWC will become part of each respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;

2. This AWC will be made available through FINRA's public disclosure program in response to public inquiries about each respondent's disciplinary record;

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, nor 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 creating 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 either 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. 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 both Respondents, certifies that a person duly authorized to act on their behalf has read and understood all of the provisions of this AWC and has been given a full opportunity to ask questions about it; 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 Respondents to submit it.

11/21/2014
Date (mm/dd/yyyy)

Respondent
Wells Fargo Advisors, LLC

By: _____
John C. Parker, II
Executive Vice President

11/21/2014
Date (mm/dd/yyyy)

Respondent
Wells Fargo Advisors Financial Network, LLC

By: _____
John C. Parker, II
Executive Vice President

Reviewed by:

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Accepted by FINRA:

December 18, 2014
Date

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

Adam B. Walker

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