FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2012032975301

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

RE: Lincoln Financial Advisors Corporation, Respondent
CRD No. 3978

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Lincoln Financial Advisors Corporation ("LFA" 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 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

LFA has been a registered broker-dealer with the SEC and a member of FINRA since 1969. The Firm conducts general securities business, including sales of variable annuities. It has 2461 registered representatives and 567 branch offices, with its headquarters in Fort Wayne, Indiana.

RELEVANT DISCIPLINARY HISTORY

LFA has no relevant disciplinary history.

OVERVIEW

Between approximately October 2008 and April 2009, registered representatives in two of the Firm's branch offices recommended that customers invest in a hedge fund (the "Hedge Fund") offered as a sub-account to a private placement variable annuity (the "PPVA"). The Hedge Fund engaged in a complex options trading strategy, including trading uncovered options, which exposed customers to a high

degree of financial risk under certain circumstances. The Firm approved the PPVA and the Hedge Fund, after it was added as a sub-account by the PPVA sponsor, for investment by the Firm's customers. Based on recommendations of the Firm's registered representatives, 25 of the Firm's customers invested a total of approximately $11.7 million in the Hedge Fund. In 2010, the Hedge Fund was shut down.

LFA failed to have supervisory systems and procedures reasonably designed to achieve compliance by its registered representatives with their suitability obligations in recommending to the 25 customers that they invest in the Hedge Fund. The Firm failed to adequately supervise customer specific suitability reviews for investments in the Hedge Fund, including failing to review for over-concentration in alternative investments through PPVA sub-account allocations. In addition, the Firm failed to adequately train its registered representatives on the risks of the Hedge Fund. As a result, LFA violated NASD Rules 3010(a) and (b) and 2110 and FINRA Rule 2010.[1]

FACTS AND VIOLATIVE CONDUCT

Beginning in approximately January 2007, registered representatives in the Firm's Salt Lake City, Utah and Denver, Colorado branch offices recommended that customers invest in the PPVA. Through the PPVA, customers could allocate funds to one or more sub-accounts, each consisting of an investment in a private placement. Customers who invested in the PPVA bore the same risk of principal loss as if they invested in the underlying private placements represented in the sub-accounts. In addition, customers were obligated to pay fees associated with the private placement sub-accounts in addition to fees imposed by the PPVA. Customers could obtain tax deferral on investment gains in the PPVA, although some Firm customers who invested in the PPVA held the investment in accounts through which they already obtained tax deferral.

The Firm approved the Hedge Fund for investment by the Firm's customers in October 2008, after the Hedge Fund was added as a sub-account by the PPVA sponsor. The Hedge Fund employed a complicated options trading strategy whereby it earned revenue exclusively by writing a combination of uncovered options. This strategy exposed customers to a high degree of financial risk and, for customers who re-allocated assets to the Hedge Fund, significantly increased the risk that, under certain circumstances, these customers could lose money they had invested in the PPVA. Between approximately October 2008 and April 2009, the Firm's registered representatives recommended that customers allocate funds to the Hedge Fund sub-account of the PPVA. Based on these recommendations, 25 customers invested a total of approximately $11.7 million in the Hedge Fund.

[1] FINRA Rule 2010 replaced NASD Rule 2110 on December 15, 2008. Accordingly, the conduct described herein occurring before December 15, 2008 violated NASD Rule 2110, and the conduct occurring on or after December 15, 2008 violated FINRA Rule 2010. FINRA Rule 3110(a) and (b) replaced NASD Rule 3010(a) and (b) on December 1, 2014. FINRA Rule 2111 replaced NASD Rule 2310 on July 9, 2012.

Of these customers, 18 re-allocated assets to the Hedge Fund, while the remaining seven allocated assets to the Hedge Fund at the time of their initial investments in the PPVA. The Hedge Fund was shut down in 2010.

NASD Rule 3010(a) required each member firm to "establish and maintain a system to supervise the activities of each registered representative, registered principal and other associated person that is reasonably designed to achieve compliance" with NASD and FINRA rules. Under NASD Rule 3010(b), each member firm was required to "establish, maintain and enforce written procedures to supervise" its business and the activities of its registered representatives "that are reasonably designed to achieve compliance" with NASD and FINRA rules. Among other things, NASD Rule 3010 required each member firm to establish and maintain supervisory systems and procedures that were reasonably designed to achieve compliance with NASD Rule 2310. In turn, NASD Rule 2310 required each member firm, "[i]n recommending to a customer the purchase, sale or exchange of any security," to "have reasonable grounds for believing that the recommendation is suitable for such customer upon the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs." LFA failed to establish and maintain adequate supervisory systems and procedures to ensure that its registered representatives complied with their suitability obligations in recommending investments in the Hedge Fund to the 25 customers.

First, although the Hedge Fund engaged in a complicated options trading strategy that differed significantly from traditional investments and even other alternative investments, LFA failed to provide adequate training or guidance to its registered representatives on the trading strategy or risks of the Hedge Fund before they solicited and sold the investments. For example, the Firm did not provide product-specific training regarding the PPVA or the Hedge Fund to its registered representatives.

Second, LFA failed to adequately supervise its registered representatives' customer specific suitability determinations in connection with investments in the Hedge Fund. Although the Firm conducted suitability reviews concerning a customer's initial sub-account allocation, the Firm did not conduct a similar review when customers re-allocated their investments in the PPVA to the Hedge Fund.

Third, the Firm did not provide sufficient guidance to its registered representatives regarding concentration of customer assets in the Hedge Fund. Although the Firm's written supervisory procedures limited customer investments to no more than 10% of their net worth in a specific alternative investment product, such as the Hedge Fund, the Firm did not review investments in the Hedge Fund for compliance with this limit.

Based on the foregoing, LFA violated NASD Rules 3010(a) and (b) and 2110 and

FINRA Rule 2010.

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

- A censure; and
- A fine in the amount of $150,000.

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 Respondent; and

C. If accepted:

1. this AWC will become part of my 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.

08/20/2015
Date (mm/dd/yyyy)

Lincoln Financial Advisors Corporation

By: _____
David S. Berkowitz, CEO

Reviewed by:

_____
Ivan B. Knauer
Counsel for Respondent
Pepper Hamilton LLP
Hamilton Square
600 Fourteenth Street, N.W.
Washington, DC 20005
(202) 220-1219

Accepted by FINRA:

9/2/15
Date

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

James E. Day
Vice President & Chief Counsel
FINRA Department of Enforcement
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