

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20150433627 01**

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

RE: Laidlaw & Company (UK) LTD., Respondent
BD No. 119037

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Laidlaw & Company (UK) LTD. ("Respondent," "Laidlaw," 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 the Firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Laidlaw 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

Laidlaw has been a member of FINRA since July 2002. The Firm's principal office is located in London, England. The Firm currently employs approximately 97 registered persons working out of eight office locations.

RELEVANT DISCIPLINARY HISTORY

The Firm has no relevant disciplinary history.

OVERVIEW

From April 2013 through December 2015 (the "Relevant Period"), Laidlaw failed to establish and maintain a supervisory system and written supervisory procedures ("WSPs") reasonably designed to ensure that representatives' recommendations of leveraged and inverse exchange traded funds ("Non-Traditional ETFs") complied with applicable securities laws and NASD and FINRA Rules. As a result, Laidlaw violated NASD Rule 3010 and FINRA Rules 3110 and 2010.

FACTS AND VIOLATIVE CONDUCT

Non-Traditional ETFs are designed to return a multiple of an underlying index or benchmark, the inverse of that benchmark, or both, over the course of one trading session – usually a single day. The performance of Non-Traditional ETFs over periods of time longer than a single trading session “can differ significantly from the performance...of their underlying index or benchmark during the same period of time.”¹ Because of these risks and the inherent complexity of these products, FINRA has advised broker-dealers and their representatives that Non-Traditional ETFs “are typically not suitable for retail investors who plan to hold them for more than one trading session, particularly in volatile markets.”²

During the Relevant Period, Firm representatives solicited 869 purchases and 946 sales of Non-Traditional ETFs across 312 customer accounts. These transactions had a total principal value exceeding \$32,000,000.

However, during the Relevant Period, the Firm did not have a supervisory system reasonably designed to enable the Firm’s supervisory personnel to review Non-Traditional ETF transactions. The Firm’s WSPs did not require supervisors to review open positions in Non-Traditional ETFs held for extended periods or resulting in unrealized losses and did not impose product-specific limitations on Firm representatives’ ability to recommend trading in or holding Non-Traditional ETFs. Additionally, prior to July 2015, the Firm relied on supervisors to conduct a manual blotter review to detect potentially unsuitable Non-Traditional ETF transactions. Beginning in July 2015, the Firm began using an exception report showing transactions in all exchange traded funds, including Non-Traditional ETFs. But this exception report did not show holding periods for Non-Traditional ETFs.

As a result, Laidlaw failed to establish and maintain a supervisory system reasonably designed to ensure that the Firm’s sales of Non-Traditional ETFs complied with applicable securities laws and NASD and FINRA Rules.

By virtue of the foregoing, Laidlaw violated NASD Rule 3010 and FINRA Rules 3110, and 2010.³

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

- a censure;
- a fine of \$25,000; and
- Laidlaw agrees to comply with the following undertaking:

¹ FINRA Regulatory Notice 09-31.

² *Id.*

³ FINRA Rule 3110 replaced NASD Rule 3010 effective December 1, 2014.

Within 90 days of the issuance of this AWC, or such additional period as agreed to by a FINRA staff member in writing, an officer of the Firm shall provide to Kevin Hartzell, Principal Regional Counsel, FINRA, at the address set forth below, a written certification that the Firm's systems, policies and procedures with respect to each of the areas and activities cited in this AWC are reasonably designed to achieve compliance with applicable securities laws, regulations and rules.

Laidlaw agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Laidlaw has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Laidlaw 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

Laidlaw 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, Laidlaw 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.

Laidlaw 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

Laidlaw 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 Laidlaw; and
- C. If accepted:
 - 1. this AWC will become part of Laidlaw's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Laidlaw;
 - 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. Laidlaw 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. Laidlaw 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 Laidlaw'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. Laidlaw may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Laidlaw 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.

