

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2022073287901**

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

RE: Wells Fargo Clearing Services, LLC (Respondent)
Member Firm
CRD No. 19616

Pursuant to FINRA Rule 9216, Respondent Wells Fargo Clearing Services, LLC 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

Wells Fargo has been a FINRA member since July 1987 and a Municipal Securities Rulemaking Board (MSRB) registrant since September 1990. The firm employs over 18,000 registered representatives in over 5,000 branch offices and is headquartered in St. Louis, Missouri. The firm's business activities include securities and commodities brokerage, investment advisory, asset management, and clearing services.¹

OVERVIEW

From November 2016 through November 2023, Wells Fargo failed to timely cancel or close out 209 failed inter-dealer transactions in municipal securities totaling approximately \$6.5 million and failed to timely deliver 106 municipal securities totaling approximately \$3.8 million, violating MSRB Rule G-12(h).

During the same period, Wells Fargo failed to promptly obtain physical possession or control of 178 short positions totaling approximately \$4.1 million resulting from failures to receive municipal securities, violating Securities Exchange Act of 1934 Section 15(c)(3), Exchange Act Rule 15c3-3(d)(2), and FINRA Rule 2010.

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

Finally, during the same period, Wells Fargo failed to establish and maintain a supervisory system, including written supervisory procedures (WSPs), reasonably designed to achieve compliance with MSRB Rule G-12(h) and Exchange Act Rule 15c3-3(d)(2). As a result, the firm violated MSRB Rule G-27.

For these violations, Wells Fargo is censured and fined \$1,250,000.

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's cycle examination of Wells Fargo.

A. Wells Fargo failed to comply with the close-out requirements of MSRB Rule G-12(h).

MSRB Rule G-12 establishes uniform industry practices for the processing, clearance, and settlement of transactions in municipal securities between brokers, dealers, and municipal securities dealers. Since November 2016, MSRB Rule G-12(h) has required firms to cancel or close out failed inter-dealer transactions no later than ten calendar days after settlement date, unless the buyer grants a one-time extension of ten calendar days to the seller, thereby providing a total of 20 calendar days to complete the transaction. In all instances, however, inter-dealer fails must be closed out within no more than a total of 20 calendar days after settlement date.

MSRB Rule G-12(h)(i)(E) provides three options to the purchasing dealer to close out inter-dealer fails: (1) purchase (buy-in) at the current market all or any part of the securities necessary to complete the transaction; (2) accept from the seller in satisfaction of the seller's obligation under the original contract (which shall be concurrently cancelled) a transaction in municipal securities which are comparable to those originally bought in quantity, quality, yield or price, and maturity; or (3) require the seller to repurchase the securities in a transaction on terms which provide that the seller pay an amount which includes accrued interest.

The MSRB notified firms in August 2016 of the amendments to MSRB Rule G-12(h)'s close-out requirement via Regulatory Notice 2016-21, which explained that the close-out period described above would reduce the cost and systemic risk of inter-dealer fails. Regulatory Notice 2016-21 also provided that, although firms may be reluctant to seek a solution other than a buy-in, the alternative close-out solutions under the rule should be considered as part of a timely inter-dealer fail resolution given that municipal securities often are not readily available for a buy-in.

From November 2016 through November 2023, Wells Fargo failed to cancel or close out 209 inter-dealer transactions after failing to receive municipal securities totaling approximately \$6.5 million for over 20 calendar days after settlement date (inclusive of extensions). Approximately half of those fails-to-receive were aged over 50 days. Although MSRB Rule G-12(h) provides three options through which firms can close out fails, the firm relied primarily on repeated buy-in attempts until a position was covered—even when the firm knew that these attempts were not successful within the 20-calendar

day limit. During the same period, Wells Fargo also failed to deliver 106 municipal securities totaling approximately \$3.8 million within 20 calendar days after settlement date (inclusive of extensions).

Therefore, Wells Fargo violated MSRB Rule G-12(h).

B. Wells Fargo failed to take prompt steps to obtain possession or control of customer securities in failed inter-dealer municipal securities transactions.

A FINRA member firm is “short” municipal securities when its customers have purchased municipal securities that are not within the firm’s physical possession or control. Firms may be short municipal securities when, among other reasons, the firm fails to receive securities it purchased to fulfill a customer’s municipal securities order.

Exchange Act § 15(c)(3) and Exchange Act Rule 15c3-3(d)(2) require that if a security is included on a broker-dealer’s books or records as failed to receive for more than 30 calendar days, the broker-dealer must take prompt steps to obtain physical possession or control of the failed securities. A violation of Exchange Act § 15(c)(3) and Exchange Act Rule 15c3-3(d)(2) is also a violation of FINRA Rule 2010, which requires members, in the conduct of their business, to observe high standards of commercial honor and just and equitable principles of trade.

Wells Fargo engaged in repeated buy-in attempts to resolve and obtain possession or control of municipal securities it failed to receive, even when the firm knew that its buy-in attempts were not successful. As a result, from November 2016 through November 2023, Wells Fargo failed to take prompt steps to obtain possession or control of 178 municipal securities totaling approximately \$4.1 million that the firm had failed to receive for more than 30 calendar days.²

Therefore, Wells Fargo violated Exchange Act § 15(c)(3), Exchange Act Rule 15c3-3(d)(2) and FINRA Rule 2010.

C. Wells Fargo failed to establish and maintain a supervisory system, including WSPs, reasonably designed to achieve compliance with MSRB Rule G-12(h) and Exchange Act Rule 15c3-3.

MSRB Rule G-27 requires brokers, dealers, and municipal securities dealers to establish and maintain a supervisory system, including written procedures, to supervise the conduct of their municipal securities activities to ensure compliance with MSRB rules and applicable provisions of the Securities Exchange Act of 1934 and Exchange Act rules.

As described above, in August 2016, the MSRB issued Regulatory Notice 2016-21, which notified firms that MSRB Rule G-12(h) would be amended to require failed inter-dealer municipal securities transactions to be canceled or closed out within no more than

² These 178 municipal securities positions are among the 209 fails-to-receive discussed above.

a total of 20 calendar days. However, from November 2016 to November 2023, Wells Fargo's WSPs did not provide reasonable guidance about available close-out options. The firm's supervisory system did not reasonably track whether failed inter-dealer municipal securities transactions were timely closed out.

Additionally, in July 2015, FINRA issued Regulatory Notice 15-27, which reminded members that their WSPs should include processes for detecting, resolving, and preventing the consequences of short positions and fails-to-receive in municipal securities, and comply with Exchange Act Rule 15c3-3's requirement to take prompt steps to obtain physical possession or control of municipal securities that are short for more than 30 calendar days. During the relevant period, the firm's supervisory system, including its WSPs, failed to provide reasonable guidance about how the firm should obtain possession or control of municipal securities that it failed to receive.

In December 2023, the firm updated its system and processes for addressing municipal fails-to-receive and revised its WSPs to memorialize the changes.

By failing to establish and maintain a supervisory system, including WSPs, reasonably designed to address compliance with MSRB Rule G-12(h), and Exchange Act Rule 15c3-3(d)(2), Wells Fargo violated MSRB Rule G-27.

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

- a censure and
- a \$1,250,000 fine (\$937,500 of which pertains to the violations of MSRB Rules G-12 and G-27).

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.

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 prejudice 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.

3RD DEC 2025

Date

Paul Lacey

Wells Fargo Clearing/Services, LLC
Respondent

Print Name: PAUL LACEY

Title: EXECUTIVE VICE PRESIDENT

Reviewed by:

Richard M. Rosenfeld
Counsel for Respondent
Mayer Brown LLP
1221 Avenue of the Americas
New York, NY 10020

Accepted by FINRA:

01/08/2026

Date

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



Alex Marinello
Principal Counsel
FINRA
Department of Enforcement
Two Jericho Plaza
Jericho, NY 11753