
IN THE MATTER OF:

**JANNEY MONTGOMERY SCOTT, LLC
CRD NO. 463**

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CONSENT ORDER

DOCKET NO. CO-20-8388-S

I. PRELIMINARY STATEMENT

WHEREAS, the Banking Commissioner (“Commissioner”) is charged with the administration of Chapter 672a of the General Statutes of Connecticut, the Connecticut Uniform Securities Act (“Act”), and Sections 36b-31-2 to 36b-31-33, inclusive, of the Regulations of Connecticut State Agencies (“Regulations”) promulgated under the Act;

WHEREAS, Janney Montgomery Scott, LLC (“Janney”) is a broker-dealer registered in the state of Connecticut and has multiple branch office locations throughout the state;

WHEREAS, the Commissioner, through the Securities and Business Investments Division (“Division”) of the Department of Banking, conducted an investigation of Janney pursuant to Section 36b-26(a) of the Act and a related examination of Janney pursuant to Section 36b-14(d) of the Act and Section 36b-31-14f of the Regulations to determine whether Janney had violated, was violating or was about to violate provisions of the Act or Regulations or any order thereunder;

WHEREAS, the Division’s initial document requests to Janney were made in conjunction with an investigation into a former employee seeking relicensing with the Division, James Pettit (“Pettit”), as Pettit’s Form U-5 filed by Janney indicated Pettit left “voluntarily while under internal review regarding outside business activities”;

WHEREAS, the Division's initial inquiry included a request for copies of all internal compliance forms/questionnaires describing Pettit's outside business activity ("OBA") and any additional information evidencing Pettit's OBAs subject to Janney's internal review;

WHEREAS, in response to the Division's initial request, Janney provided documents responsive to the request, but neglected to include two internal compliance forms describing Pettit's OBAs both of which were directly related to the failure to supervise alleged within this Consent Order;

WHEREAS, during a series of related requests made by the Division seeking to obtain information pertaining to the above referenced matter, the Division requested copies of all records and correspondence relating to any and all of Pettit's OBAs, including but not limited to the e-mail request and subsequent firm approval of Pettit's OBA concerning his appointment as executor of a client's estate;

WHEREAS, in response to the Division's above request Janney inaccurately stated to the Division that Janney had provided all documents responsive to the request;

WHEREAS, on May 15, 2017, the Commissioner entered a Notice of Intent to Deny Registrations as a Broker Dealer Agent and an Investment Adviser Agent, Order to Cease and Desist and Notice of Intent to Fine (Docket No. NDCDF-17-8218-S) against Pettit ("Pettit Notice), alleging, among other things, that Pettit improperly borrowed money from clients and engaged in self-dealing with respect to the account of a deceased client;

WHEREAS, in response to a follow-up request made by the Division pertaining to Janney's supervision and procedures, Janney's counsel referred to a previously undisclosed email ("Undisclosed Email") to the Division that purportedly was responsive to previous requests made by the Division;

WHEREAS, on December 19, 2017, the Division requested information pertaining to the supervision of Pettit's approved OBA, including any supporting documentation evidencing this supervision, and a copy of the Undisclosed Email as well any additional documents responsive to prior requests that were not previously provided relating to Pettit's OBA ("December Request");

WHEREAS, in response to the Division's December Request, Janney provided the Division with only the Undisclosed Email and failed to provide any additional responsive documents and/or correspondence pertaining to Pettit's OBA;

WHEREAS, upon discovering the nature of the withheld documents, the Director of the Division held a conference call to discuss Janney's withholding of requested documents, express the Division's desire to work through the issues with Janney and create a better path forward, with the Director ultimately agreeing to send a new request to Janney as a "fresh start" with the expectation there would be no additional delays or documents withheld;

WHEREAS, on March 2, 2018, the Division re-requested any records and/or correspondence pertaining to Pettit's OBA with a production deadline of March 19, 2018;

WHEREAS, on March 21, 2018, the Division received a partial response from Janney that included over 5,000 documents, but which failed to include all documents;

WHEREAS, on April 2, 2018, Janney produced additional responsive documents pertaining to the March request;

WHEREAS, in the responses given by Janney to the initial written requests made by the Division, Janney withheld from production a total of 89 emails responsive to prior Division requests ("Withheld Emails");

WHEREAS, information contained in the Withheld Emails shed new light on the allegation put forward in the Pettit Notice that Pettit failed to notify Janney of his OBAs;

WHEREAS, according to information contained in the Withheld Emails, Pettit had, in fact, notified Janney's supervisory staff and compliance department of his intent to engage in the two OBAs in question;

WHEREAS, on both occasions, requests regarding the OBAs were sent to Janney's compliance employees and the initial request and/or communication went unanswered;

WHEREAS, despite numerous red flags and escalated issues pertaining to Pettit, Janney allowed Pettit to act as executor of a client's estate in contravention to Janney's own written supervisory procedures that prohibit such activity, which resulted in monetary loss to a client;

WHEREAS, the violations alleged herein would support the initiation of administrative proceedings by the Commissioner pursuant to Sections 36b-15(a), 36b-27(a) and 36b-27(d) of the Act;

WHEREAS, Section 36b-31(a) of the Act provides, in relevant part, that "[t]he commissioner may from time to time make . . . such . . . orders as are necessary to carry out the provisions of sections 36b-2 to 36b-34, inclusive";

WHEREAS, Section 36b-31(b) of the Act provides, in relevant part, that "[n]o . . . order may be made . . . unless the commissioner finds that the action is necessary or appropriate in the public interest or for the protection of investors and consistent with the purposes fairly intended by the policy and provisions of sections 36b-2 to 36b-34, inclusive";

WHEREAS, an administrative proceeding initiated under Sections 36b-15 and 36b-27 of the Act would constitute a "contested case" within the meaning of Section 4-166(2) of the General Statutes of Connecticut;

WHEREAS, Section 4-177(c) of the General Statutes of Connecticut and Section 36a-1-55(a) of the Regulations of Connecticut State Agencies provide that a contested case may be resolved by consent order, unless precluded by law;

WHEREAS, without holding a hearing and without trial or adjudication of any issue of fact or law, and prior to the initiation of any formal proceeding, the Commissioner and Janney reached an agreement, the terms of which are reflected in this Consent Order, in full and final resolution of the matters described herein;

WHEREAS, Janney, without admitting or denying any of the Commissioner's allegations or findings, expressly consents to the Commissioner's jurisdiction under the Act and to the terms of this Consent Order;

WHEREAS, the issuance of this Consent Order is necessary or appropriate in the public interest or for the protection of investors and consistent with the purposes fairly intended by the policy and provisions of the Act;

WHEREAS, Janney has provided to the Division evidence that restitution in the amount of one hundred eight thousand four hundred fifty-nine dollars and sixty-eight cents (\$108,459.68) was paid to the estate of the Janney client and Connecticut resident who suffered financial harm due to the actions of Pettit through his firm approved OBA;

WHEREAS, Janney has provided the Division with documentation and information evidencing changes it has made since the events alleged herein to enhance its compliance practices and procedures, and has expressed to the Division its ongoing commitment to undertake constant internal review of its personnel, its policies and its processes;

AND WHEREAS, Janney, through its execution of this Consent Order, specifically assures the Commissioner that none of the violations alleged in this Consent Order shall occur in the future.

II. CONSENT TO WAIVER OF PROCEDURAL RIGHTS

WHEREAS, Janney, through its execution of this Consent Order, voluntarily waives the following rights:

1. To be afforded notice and an opportunity for a hearing within the meaning of Sections 36b-15(f) and 36b-27 of the Act and Section 4-177(a) of the General Statutes of Connecticut;
2. To present evidence and argument and to otherwise avail itself of Sections 36b-15(f) and 36b-27 of the Act and Section 4-177c(a) of the General Statutes of Connecticut;
3. To present its position in a hearing in which it is represented by counsel;
4. To have a written record of the hearing made and a written decision issued by a hearing officer; and
5. To seek judicial review of, or otherwise challenge or contest, the matters described herein, including the validity of this Consent Order.

III. ACKNOWLEDGEMENT OF THE COMMISSIONER'S ALLEGATIONS

WHEREAS, Janney, through its execution of this Consent Order, acknowledges the following allegations of the Commissioner:

1. Janney violated Sections 36b-14(d) of the Act by failing to produce records requested by the Division;
2. Janney violated Section 36b-31-6f of the Regulations by failing to establish, enforce and maintain a system for supervising the activities of its agents, investment adviser agents and Connecticut office operations that was reasonably designed to achieve compliance with applicable securities laws and regulations; and
3. Janney violated Section 36b-31-14e of the Regulations by failing to file a correcting amendment to a materially inaccurate or incomplete Form U-5 it had previously filed with the Commissioner.

WHEREAS, the Commissioner would have the authority to enter findings of fact and conclusions of law after granting Janney an opportunity for a hearing;

AND WHEREAS, Janney acknowledges the possible consequences of an administrative hearing and voluntarily agrees to consent to the entry of the sanctions described below.

IV. CONSENT TO ENTRY OF SANCTIONS

WHEREAS, Janney, through its execution of this Consent Order, consents to the Commissioner's entry of an order imposing on it the following sanctions:

1. Janney shall cease and desist from violating Sections 36b-14(d) of the Act and Sections 36b-31-6f and 36b-31-14e of the Regulations, and shall comply with the Act, its Regulations and any order under the Act;
2. No later than the date this Consent Order is entered by the Commissioner, Janney shall pay the sum of one hundred and fifty thousand dollars (\$150,000) to the "Treasurer, State of Connecticut" by electronic funds transfer or wire transfer. Of this amount one hundred thousand dollars (\$100,000) shall constitute an administrative fine and fifty thousand dollars (\$50,000) shall be reimbursement for the Division's investigative costs;
3. Within thirty (30) days from the date this Consent Order is entered by the Commissioner, Janney shall pay by cashier's check, certified check or money order made payable to "Treasurer, State of Connecticut" a total of one hundred thousand dollars (\$100,000) to be utilized, at the discretion of the Commissioner, for financial literacy and investor education initiatives, training, and related materials;

4. No later than six (6) months after the date this Consent Order is entered by the Commissioner, Janney shall hold a training for its Legal and Compliance employees with a specific focus on responding to regulatory inquiries;
5. Retention of Independent Consultant by Janney:
 - a. *Retention; Qualifications.* No later than the date this Consent Order is entered by the Commissioner, Janney shall designate in writing to the Division and retain an outside independent consultant (“Consultant”), not unacceptable to the Division Director, to review Janney’s supervisory and compliance procedures relating to the topics of the process of supervision and escalation procedures of outside business activities and the handling of deceased client accounts and make written recommendations concerning the implementation of additional procedures necessary to ensure compliance with applicable securities laws, regulations and administrative orders. The Consultant (i) shall be sufficiently experienced in securities regulatory, supervisory and compliance issues and specifically knowledgeable about the requirements of the Act and the Regulations; and (ii) shall not be an affiliate of Janney. Janney shall not retain as a Consultant a person who is or was engaged by Janney in an advocacy capacity, either directly or through the person’s employing firm. In addition, Janney shall not seek to invoke the attorney-client or any other privilege or doctrine to prevent the Consultant from transmitting any information, reports or documents to the Commissioner or the Division.
 - b. *Scope of Work.* No later than ninety (90) days following the entry of this Consent Order, the Consultant shall conduct a compliance review of Janney’s operations and prepare a written report outlining the Consultant’s findings and recommendations. The compliance review shall examine Janney’s supervisory and compliance policies and procedures that pertain to the topics described in subsection (a) with an emphasis on the implementation of safeguards to prevent recurrence of the conduct described in this Consent Order.
 - c. *Filing of Reports with the Commissioner.* No later than one hundred twenty (120) days following the entry of this Consent Order, Janney shall file a copy of the Consultant’s report with the Commissioner. The Consultant’s report and information contained therein shall be treated as confidential supervisory information pursuant to Connecticut General Statutes Section 36a-21. The Consultant’s report shall be accompanied by a written statement, signed and attested to by Janney’s Chief Compliance Officer, describing the steps that have been or will be taken to implement the Consultant’s recommendations and the specific timetable for implementing such recommendations. If Janney declines to adopt or implement any recommendation(s) by the Consultant, Janney shall identify the recommendations not adopted or implemented and explain why they were not adopted or implemented.
 - d. *Termination of Engagement.* If, prior to the filing of the Consultant’s report, the Consultant’s engagement is terminated or the Consultant ceases working for Janney, Janney shall immediately notify the Division in writing and provide the Division with a written statement detailing the circumstances surrounding the Consultant’s departure. Promptly thereafter, Janney shall retain and designate in writing to the Commissioner a new Consultant sufficiently experienced in securities regulatory, supervisory and compliance issues, specifically knowledgeable about the Act and Regulations and not unacceptable to the Division Director to fulfill Janney’s obligations under this paragraph 5.

- e. *Commissioner's Authority.* Nothing in this paragraph shall preclude the Commissioner from requesting additional information from Janney in conjunction with the Consultant's review and report described herein.

V. CONSENT ORDER

NOW THEREFORE, the Commissioner enters the following:

1. The Sanctions set forth above be and are hereby entered;
2. Entry of this Consent Order by the Commissioner is without prejudice to the right of the Commissioner to take enforcement action against Janney based upon a violation of this Consent Order or the matters underlying its entry if the Commissioner determines that compliance with the terms herein is not being observed or if any representation made by Janney and set forth herein is subsequently determined to be untrue;
3. Nothing in this Consent Order shall be construed as limiting the Commissioner's ability to take enforcement action against Janney based upon evidence of which the Division was unaware on the date hereof relating to a violation of the Act or any regulation or order under the Act;
4. Janney shall 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 allegation referenced in this Consent Order or create the impression that this Consent Order is without factual basis;
5. Janney shall not take any position in any proceeding brought by or on behalf of the Commissioner, or to which the Commissioner is a party, that is inconsistent with any part of this Consent Order. However, nothing in this Consent Order affects Janney's testimonial obligations or right to take any legal or factual position in litigation, arbitration, or other legal proceedings in which the Commissioner is not a party;
6. The Consent Order is not intended by the Commissioner to subject Janney to any disqualifications under the laws of the United States, any state, the District of Columbia, Puerto Rico, or the U.S. Virgin Islands, or under the rules or organization, including, without limitation, any disqualification from relying upon state or federal registration exemptions or safe harbor provisions;
7. This Consent Order shall not disqualify Janney from any business that they otherwise are qualified, licensed, or permitted to perform under applicable securities laws or regulations of Connecticut and any disqualifications from relying upon this state's registration exemptions or safe harbor provisions that might be deemed to arise from this Consent Order are hereby waived; and
8. This Consent Order shall become final when entered.

So ordered at Hartford, Connecticut,
this 21st day of October 2020.

_____/s/_____
Jorge L. Perez
Banking Commissioner

CONSENT TO ENTRY OF ORDER

I, William Alan Smith, state on behalf of Janney Montgomery Scott, LLC (“Janney”), that I have read the foregoing Consent Order; that I know and fully understand its contents; that I am authorized to execute this Consent Order on behalf of Janney; that Janney agrees freely and without threat or coercion of any kind to comply with the terms and conditions stated herein; and that Janney consents to the entry of this Consent Order.

Janney Montgomery Scott, LLC

By: _____/s/_____
William Alan Smith
Deputy General Counsel, Vice President

State of: Pennsylvania

County of: Montgomery

On this the 14th day of October 2020, before me, the undersigned officer, personally appeared William Alan Smith, who acknowledged himself to be the Vice President of Janney Montgomery Scott, LLC, and that he, as such Vice President, being authorized so to do, executed the foregoing instrument for the purposes therein contained, by signing the name of Janney Montgomery Scott, LLC, by himself as Vice President.

In witness whereof I hereunto set my hand.

_____/s/_____
Notary Public
Date Commission Expires: July 24, 2023