

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 100700 / August 14, 2024**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-21996**

**In the Matter of**

**First Trust Portfolios L.P.,**

**Respondent.**

**ORDER INSTITUTING ADMINISTRATIVE  
AND CEASE-AND-DESIST PROCEEDINGS,  
PURSUANT TO SECTIONS 15(b) AND 21C  
OF THE SECURITIES EXCHANGE ACT OF  
1934, MAKING FINDINGS, AND IMPOSING  
REMEDIAL SANCTIONS AND A CEASE-  
AND-DESIST ORDER**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against First Trust Portfolios L.P. (“Respondent” or “First Trust”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (“Offer”) that the Commission has determined to accept. Respondent admits the facts set forth in Section III below, acknowledges that its conduct violated the federal securities laws, admits the Commission’s jurisdiction over it and the subject matter of these proceedings, and consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

**III.**

On the basis of this Order and Respondent’s Offer, the Commission finds<sup>1</sup> that:

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<sup>1</sup> The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

## Summary

1. The federal securities laws impose recordkeeping requirements on broker-dealers to ensure that they responsibly discharge their crucial role in our markets. The Commission has long said that compliance with these requirements is essential to investor protection and the Commission's efforts to further its mandate of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation.

2. These proceedings arise out of the widespread and longstanding failure of First Trust employees throughout the firm, including at senior levels, to adhere to certain of these essential requirements and First Trust's own policies. Using their personal devices, these employees communicated both internally and externally by personal text messages ("off-channel communications").

3. From at least August 2019, First Trust employees sent and received off-channel communications that related to the business of the broker-dealer operated by First Trust. Respondent did not maintain or preserve the substantial majority of these written communications. Respondent's failure was firm-wide, and involved employees at various levels of authority. As a result, First Trust violated Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder.

4. First Trust's supervisors, who were responsible for supervising junior employees, routinely communicated off-channel using their personal devices. In fact, senior managers and other First Trust employees responsible for supervising junior employees themselves failed to comply with First Trust's policies by communicating using non-First Trust approved methods on their personal devices about First Trust's broker-dealer business.

5. First Trust's widespread failure to implement its policies and procedures that prohibit such communications led to its failure to reasonably supervise its employees within the meaning of Section 15(b)(4)(E) of the Exchange Act.

6. During the time period that First Trust failed to maintain and preserve off-channel communications that its employees sent and received related to the broker-dealer's business, First Trust received and responded to Commission subpoenas for documents and/or records requests in Commission investigations. As a result, First Trust's recordkeeping failures likely impacted the Commission's ability to carry out its regulatory functions and investigate violations of the federal securities laws across these investigations.

7. Commission staff uncovered First Trust's misconduct after commencing a risk-based initiative to investigate the use of off-channel and unpreserved communications at broker-dealers. First Trust has initiated a review of its recordkeeping failures and begun a program of remediation. As set forth in the Undertakings below, First Trust will retain an independent compliance consultant to review and assess First Trust's remedial steps relating to its recordkeeping practices, policies and procedures, related supervisory practices, and employment actions.

## **Respondent**

8. **First Trust Portfolios L.P.** is an Illinois limited partnership with its principal office in Wheaton, Illinois and is registered with the Commission as a broker-dealer.

### **Recordkeeping Requirements under the Exchange Act**

9. Section 17(a)(1) of the Exchange Act authorizes the Commission to issue rules requiring broker-dealers to make and keep for prescribed periods, and furnish copies of, such records as necessary or appropriate in the public interest, for the protection of investors or otherwise in furtherance of the purposes of the Exchange Act.

10. The Commission adopted Rule 17a-4 under the Exchange Act pursuant to this authority. Rule 17a-4 specifies the manner and length of time that the records created in accordance with other Commission rules, and certain other records produced by broker-dealers, must be maintained and produced promptly to Commission representatives. The rules adopted under Section 17(a)(1) of the Exchange Act, including Rule 17a-4(b)(4), require that broker-dealers preserve in an easily accessible place originals of all communications received and copies of all communications sent relating to the firm's business as such. These rules impose minimum recordkeeping requirements that are based on standards a prudent broker-dealer should follow in the normal course of business.

11. The Commission previously has stated that these and other recordkeeping requirements "are an integral part of the investor protection function of the Commission, and other securities regulators, in that the preserved records are the primary means of monitoring compliance with applicable securities laws, including antifraud provisions and financial responsibility standards." Commission Guidance to Broker-Dealers on the Use of Electronic Storage Media under the Electronic Signatures in Global and National Commerce Act of 2000 with Respect to Rule 17a-4(f), 17 C.F.R. Part 241, Exchange Act Rel. No. 44238 (May 1, 2001).

### **First Trust's Policies and Procedures**

12. First Trust maintained certain policies and procedures designed to ensure the retention of business-related records, including electronic communications, in compliance with the relevant recordkeeping provisions.

13. First Trust employees were advised that the use of unapproved electronic communications methods, including on their personal devices, was not permitted, and they should not use personal email, chats or text messaging applications for business purposes, or forward work-related communications to their personal devices.

14. Messages sent through firm-approved communications methods were monitored, subject to review, and archived. Messages sent through unapproved communications methods, such as unapproved applications on personal devices, were not monitored, subject to review or archived.

15. First Trust policies were designed to address supervisors' supervision of employees' training in First Trust's communications policies and adherence to First Trust's

books and recordkeeping requirements. Supervisory policies notified employees that electronic communications were subject to surveillance by First Trust. First Trust had procedures for all employees, including supervisors, requiring annual self-attestations of compliance.

16. First Trust, however, failed to implement a system of follow-up and review to determine that supervisors were reasonably following First Trust's policies. In addition, First Trust failed to implement sufficient monitoring to ensure that its recordkeeping and communications policies prohibiting the use of personal phones for business purposes were being followed.

### **First Trust's Recordkeeping Failures Across Its Brokerage Business**

17. In September 2021, the Commission staff commenced a risk-based initiative to investigate whether broker-dealers were properly retaining business-related messages sent and received on personal devices. First Trust cooperated with the investigation by voluntarily interviewing a sampling of senior personnel and gathering and reviewing messages found on the individuals' personal devices. These personnel included senior leadership, such as managing directors and vice presidents.

18. The Commission staff's investigation uncovered pervasive off-channel communications at various seniority levels of First Trust's broker-dealer. The investigation determined that certain of the broker-dealer personnel sampled had engaged in at least some level of off-channel communications. Overall, these personnel sent and received numerous off-channel communications, involving other First Trust personnel and external contacts in the securities industry. Within First Trust, significant numbers of supervisors participated in off-channel communications.

19. From at least August 2019, First Trust personnel sent and received off-channel messages that concerned the broker-dealer's business.

20. For example, from August 31, 2021 to March 1, 2022, a First Trust managing director exchanged numerous off-channel messages with at least six First Trust colleagues and at least one external contact in the securities industry. Within First Trust, this managing director communicated off-channel with junior employees under the manager's supervision. These messages related to the broker-dealer's business as such.

21. In addition, from August 31, 2021 to March 1, 2022, a First Trust senior manager exchanged numerous off-channel messages with at least eight First Trust colleagues and at least six external contacts in the securities industry. Within First Trust, this senior manager communicated off-channel with junior employees under the manager's supervision. These messages related to the broker-dealer's business as such.

### **First Trust's Failure to Preserve Required Records Potentially Compromised and Delayed Commission Matters**

22. Between August 2019 and the present, First Trust received and responded to Commission subpoenas for documents and/or records requests in Commission investigations.

By failing to maintain and preserve required records relating to its business, First Trust likely deprived the Commission of these off-channel communications in various investigations.

### **First Trust's Violations and Failure to Supervise**

23. As a result of the conduct described above, from at least August 2019 through the date of this Order, Respondent willfully<sup>2</sup> violated Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder, which require broker-dealers to preserve for at least three years originals of all communications received and copies of all communications sent relating to its business as such.

24. As a result of the conduct described above, Respondent failed reasonably to supervise its employees with a view to preventing or detecting certain of its employees' aiding and abetting violations of Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder, within the meaning of Section 15(b)(4)(E) of the Exchange Act.

### **First Trust's Remedial Efforts**

25. In determining to accept the Offer, the Commission considered steps promptly undertaken by First Trust in part before the Commission's inquiry, and cooperation afforded the Commission staff. Since 2003, First Trust has required its customer-facing salespeople to use firm-issued devices for business communications. Between 2013 and 2015, First Trust began migrating employees to firm-issued devices which allowed employees to utilize on-channel texting that was retained and subject to surveillance. Since 2015, all new First Trust registered representatives have been issued mandatory firm devices at the time that they are hired, and currently, almost all First Trust employees have firm-issued devices.

### **Undertakings**

26. Prior to this action, Respondent enhanced its policies and procedures and increased training concerning the use of approved communications methods, including on personal devices. In addition, Respondent has undertaken to:

27. Independent Compliance Consultant.

a. First Trust shall retain, within thirty (30) days of the entry of this Order, the services of an independent compliance consultant ("Compliance Consultant") that is not

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<sup>2</sup> "Willfully," for purposes of imposing relief under Section 15(b) of the Exchange Act "means no more than that the person charged with the duty knows what he is doing." See *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Tager v. SEC*, 344 F.2d 5, 8 (2d Cir. 1965). The decision in *The Robare Group, Ltd. v. SEC*, which construed the term "willfully" for purposes of a differently structured statutory provision, does not alter that standard. 922 F.3d 468, 478-79 (D.C. Cir. 2019) (setting forth the showing required to establish that a person has "willfully omit[ted]" material information from a required disclosure in violation of Section 207 of the Advisers Act).

unacceptable to the Commission staff. The Compliance Consultant's compensation and expenses shall be borne exclusively by First Trust.

b. First Trust will oversee the work of the Compliance Consultant.

c. First Trust shall provide to the Commission staff, within sixty (60) days of the entry of this Order, a copy of the engagement letter detailing the Compliance Consultant's responsibilities, which shall include a comprehensive compliance review as described below. First Trust shall require that, within ninety (90) days of the date of the engagement letter, the Compliance Consultant conduct:

i. A comprehensive review of First Trust's supervisory, compliance, and other policies and procedures designed to ensure that First Trust's electronic communications, including those found on personal electronic devices, including without limitation, cellular phones ("Personal Devices"), are preserved in accordance with the requirements of the federal securities laws.

ii. A comprehensive review of training conducted by First Trust to ensure personnel are complying with the requirements regarding the preservation of electronic communications, including those found on Personal Devices, in accordance with the requirements of the federal securities laws, including by ensuring that First Trust personnel certify in writing on a quarterly basis that they are complying with preservation requirements.

iii. An assessment of the surveillance program measures implemented by First Trust to ensure compliance, on an ongoing basis, with the requirements found in the federal securities laws to preserve electronic communications, including those found on Personal Devices.

iv. An assessment of the technological solutions that First Trust has begun implementing to meet the record retention requirements of the federal securities laws, including an assessment of the likelihood that First Trust personnel will use the technological solutions going forward and a review of the measures employed by First Trust to track employee usage of new technological solutions.

v. An assessment of the measures used by First Trust to prevent the use of unauthorized communications methods for business communications by employees. This assessment should include, but not be limited to, a review of First Trust's policies and procedures to ascertain if they provide for any significant technology and/or behavioral restrictions that help prevent the risk of the use of unapproved communications methods on Personal Devices (e.g., trading floor restrictions).

vi. A review of First Trust's electronic communications surveillance routines to ensure that electronic communications through approved

communications methods found on Personal Devices are incorporated into First Trust's overall communications surveillance program.

vii. A comprehensive review of the framework adopted by First Trust to address instances of non-compliance by First Trust employees with First Trust's policies and procedures concerning the use of Personal Devices to communicate about First Trust business in the past. This review shall include a survey of how First Trust determined which employees failed to comply with First Trust policies and procedures, the corrective action carried out, an evaluation of who violated policies and why, what penalties were imposed, and whether penalties were handed out consistently across business lines and seniority levels.

d. First Trust shall require that, within forty-five (45) days after completion of the review set forth in sub-paragraphs c.i. through c.vii. above, the Compliance Consultant shall submit a detailed written report of its findings to First Trust and to the Commission staff (the "Report"). First Trust shall require that the Report include a description of the review performed, the names of the individuals who performed the review, the conclusions reached, the Compliance Consultant's recommendations for changes in or improvements to First Trust's policies and procedures, and a summary of the plan for implementing the recommended changes in or improvements to First Trust's policies and procedures.

e. First Trust shall adopt all recommendations contained in the Report within ninety (90) days of the date of the Report; provided, however, that within forty-five (45) days after the date of the Report, First Trust shall advise the Compliance Consultant and the Commission staff in writing of any recommendations that First Trust considers to be unduly burdensome, impractical, or inappropriate. With respect to any recommendation that First Trust considers unduly burdensome, impractical, or inappropriate, First Trust need not adopt such recommendation at that time, but shall propose in writing an alternative policy, procedure, or disclosure designed to achieve the same objective or purpose.

f. As to any recommendation concerning First Trust's policies or procedures on which First Trust and the Compliance Consultant do not agree, First Trust and the Compliance Consultant shall attempt in good faith to reach an agreement within sixty (60) days after the date of the Report. Within fifteen (15) days after the conclusion of the discussion and evaluation by First Trust and the Compliance Consultant, First Trust shall require that the Compliance Consultant inform First Trust and the Commission staff in writing of the Compliance Consultant's final determination concerning any recommendation that First Trust considers to be unduly burdensome, impractical, or inappropriate. First Trust shall abide by the determinations of the Compliance Consultant and, within sixty (60) days after final agreement between First Trust and the Compliance Consultant or final determination by the Compliance Consultant, whichever occurs first, First Trust shall adopt and implement all of the recommendations that the Compliance Consultant deems appropriate.

g. First Trust shall cooperate fully with the Compliance Consultant and shall provide the Compliance Consultant with access to such of First Trust's files, books, records, and personnel as are reasonably requested by the Compliance Consultant for review.

h. First Trust shall not have the authority to terminate the Compliance Consultant or substitute another compliance consultant for the initial Compliance Consultant, without the prior written approval of the Commission staff. First Trust shall compensate the Compliance Consultant and persons engaged to assist the Compliance Consultant for services rendered under this Order at their reasonable and customary rates.

i. For the period of engagement and for a period of two years from completion of the engagement, First Trust shall not (i) retain the Compliance Consultant for any other professional services outside of the services described in this Order; (ii) enter into any other professional relationship with the Compliance Consultant, including any employment, consultant, attorney-client, auditing or other professional relationship; or (iii) enter, without prior written consent of the Commission staff, into any such professional relationship with any of the Compliance Consultant's present or former affiliates, employers, directors, officers, employees, or agents acting in their capacity as such.

j. The Report by the Compliance Consultant will likely include confidential financial, proprietary, competitive business or commercial information. Public disclosure of the Report could discourage cooperation, impede pending or potential government investigations or undermine the objectives of the reporting requirement. For these reasons, among others, the Report and the contents thereof are intended to remain and shall remain non-public, except (1) pursuant to court order, (2) as agreed to by the parties in writing, (3) to the extent that the Commission determines in its sole discretion that disclosure would be in furtherance of the Commission's discharge of its duties and responsibilities, or (4) is otherwise required by law.

28. One-Year Evaluation. First Trust shall require the Compliance Consultant to assess First Trust's program for the preservation, as required under the federal securities laws, of electronic communications, including those found on Personal Devices, commencing one year after submitting the Report required by Paragraph 27.d above. First Trust shall require this review to evaluate First Trust's progress in the areas described in Paragraph 27.c.i-vii above. After this review, First Trust shall require the Compliance Consultant to submit a report (the "One Year Report") to First Trust and the Commission staff and shall ensure that the One Year Report includes an updated assessment of First Trust's policies and procedures with regard to the preservation of electronic communications (including those found on Personal Devices), training, surveillance programs, and technological solutions implemented in the prior year period.

29. Reporting Discipline Imposed. For two years following the entry of this Order, First Trust shall notify the Commission staff as follows upon the imposition of any discipline imposed by First Trust, including, but not limited to, written warnings, loss of any pay, bonus, or incentive compensation, or the termination of employment, with respect to any employee found to



have violated First Trust's policies and procedures concerning the preservation of electronic communications, including those found on Personal Devices: at least 48 hours before the filing of a Form U-5, or within ten (10) days of the imposition of other discipline.

30. Recordkeeping. First Trust shall preserve, for a period of not less than six (6) years from the end of the fiscal year last used, the first two (2) years in an easily accessible place, any record of compliance with these undertakings.

31. Deadlines. For good cause shown, the Commission staff may extend any of the procedural dates relating to the undertakings. Deadlines for procedural dates shall be counted in calendar days, except that if the last day falls on a weekend or federal holiday, the next business day shall be considered to be the last day.

32. Certification. First Trust shall certify, in writing, compliance with the undertakings set forth above. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence. The certification and supporting material shall be submitted to Anne C. McKinley, Assistant Regional Director, Division of Enforcement, Chicago Regional Office, 175 West Jackson Boulevard, Suite 1450, Chicago, Illinois 60604, or such other person as the Commission staff may request, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

#### IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Exchange Act and Rule 17a-4 thereunder.

B. Respondent is censured.

C. Respondent shall comply with the undertakings enumerated in paragraphs 26 to 32 above.

D. Respondent shall, within 14 days of the entry of this Order, pay a civil money penalty in the amount of \$8,000,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying First Trust as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Anne C. McKinley, Assistant Regional Director, Division of Enforcement, Chicago Regional Office, 175 West Jackson Boulevard, Suite 1450, Chicago, Illinois 60604.

E. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman  
Secretary