

BEFORE THE NATIONAL ADJUDICATORY COUNCIL

NASD REGULATION, INC.

In the Matter of
the Association of

X

as an

Associated Person
with

The Sponsoring Firm

Redacted Decision

Notice Pursuant to
Rule 19h-1
Securities Exchange Act
of 1934

SD Decision No. 02004

On May 16, 2001, the Sponsoring Firm (or "the Firm") completed an MC-400 application ("Application") seeking to permit X¹, a person subject to statutory disqualification, to associate with the Firm in a non-registered capacity. A hearing was not held in this matter. Rather, pursuant to NASD Procedural Rule 9523, NASD Regulation Inc.'s ("NASD Regulation") Department of Member Regulation ("Member Regulation") recommended to the Chair of the Statutory Disqualification Committee that X's proposed association with the Sponsoring Firm be approved pursuant to the terms and conditions set forth below.

X's Statutorily Disqualifying Event and Background. X is subject to disqualification under Article III, Section 4(g)(1) of NASD's By-Laws as a result of his 1998 guilty plea for the offense of tax evasion, Title 26 U.S.C. 7201, in the United States District Court, District of State 1. The behavior that led to X's conviction was the deduction of business expenses which had been previously reimbursed by his company. X was sentenced to two years' probation and six months' home detention, and ordered to repay applicable penalties and interest to the Internal Revenue Service. He completed his term of probation in 2000.

X is a non-registered person. He will be employed as an associated person with the Sponsoring Firm. The record shows no other regulatory or disciplinary actions taken against X.

The Firm. The Sponsoring Firm became a member of the Association in 1967. The Firm has 38 offices of supervisory jurisdiction and 51 branch offices. Its home office is located in

¹ The names of the Statutorily Disqualified individual, the Sponsoring Firm, the Proposed Supervisor, and other information deemed reasonably necessary to maintain confidentiality have been redacted.

State 2. The Firm employs 64 registered principals and 153 registered representatives. The Sponsoring Firm provides execution, clearing, and custody services on a fully disclosed basis for broker-dealers, registered investment advisors, banks, and other financial institutions.

The Sponsoring Firm has been cited for regulatory disciplinary actions in the past. The Firm's 2000 routine exam resulted in a Letter of Caution ("LOC"). Numerous deficiencies were noted in the LOC, but none were directly related to the failure to supervise individuals. The Sponsoring Firm responded by letter dated December 2000, acknowledging the deficiencies and stating that it would take appropriate action to ensure compliance in the future. A 1998 routine exam also resulted in an LOC in which several deficiencies were noted, but again none related to the direct failure to supervise individuals. The Sponsoring Firm issued a response dated January 1999, acknowledging the areas in which it was deficient and ensuring compliance in the future. A 1998 AWC censured the Firm and imposed a fine of \$15,000 for deficient written supervisory procedures and the failure to file 19 large option positions with respect to six customer accounts. A 1999 AWC censured the Firm and imposed a fine of \$7,500 for deficient written supervisory procedures relating to trade reporting and the failure to identify 75 late trade reports in listed securities. A 2000 AWC censured the Firm and imposed a fine of \$6,000 for failing to report transactions in corporate debt securities and failing to register as a Fixed Income Pricing System participant; erroneously reporting riskless principal transactions via the ACT system; "bunching" trade reports; reporting incorrect trade volume; failing to accept trades within 20 minutes after execution; failing to disclose appropriate time stamp information on several order tickets; and failing to produce order tickets for certain trades.

The Sponsoring Firm has represented that it does not employ any statutorily disqualified individuals. In addition, we are not aware of any other complaints, disciplinary proceedings, or arbitrations against the Firm. The Firm is also a member of the Pacific (since 1959) and Chicago Stock Exchanges (since 1997).

X's Proposed Business Activities and Supervision. The Firm proposes that X be employed in the Firm's marketing department as a non-registered person. He will work out of his home, located in State 1. X would be responsible for marketing the Sponsoring Firm's financial systems and services to broker dealers, banks, and registered investment advisors. His duties will not include any direct dealings with the investing public and he will not act in a supervisory capacity.

The Firm proposes that the Proposed Supervisor will be X's primary, responsible supervisor. The Proposed Supervisor is an Executive Vice President in the Firm's State 2 office. She is registered as a general securities representative (Series 7), uniform securities agent (Series 63), financial and operations principal (Series 27), registered options principal (Series 4), equity trader (Series 55), North American Securities Administrators Association ("NASAA") Investment Advisors Law (Series 65), and a general securities principal (Series 24). She has been registered as a principal since November 1985. The Proposed Supervisor has no

disciplinary history and has been employed with the Sponsoring Firm since 1987. She was first employed in the securities industry in 1984 with another firm.

The Sponsoring Firm consented to the imposition of the below terms and conditions in its MC-400 Application:

1. Although X will not be in the same physical location as the supervisor, he will be subject to telephone meetings on a monthly basis. These discussions will focus on meetings that have taken place between X and prospective clients. X will also visit the home office, at least once, on an annual basis.
2. X will not have any direct dealings with the investing public.
3. X's outgoing correspondence and expenses will be reviewed by the Proposed Supervisor.
4. Based upon the nature of his conviction, the Sponsoring Firm will require X to provide a copy of his personal taxes to be reviewed by either the Firm's CFO or its auditors.
5. For the duration of X's statutory disqualification, the Firm must obtain prior approval from Member Regulation if it wishes to change X's responsible supervisor from the Proposed Supervisor to another person.

Discussion. After careful review of the entire record in this matter, we have determined to approve the Sponsoring Firm's Application to employ X in a non-registered capacity.

In reviewing this Application, we considered the fact that X would be employed in a non-registered capacity and would not have any dealings with the investing public. We also note that X has had no intervening misconduct and that the Proposed Supervisor, has no regulatory disciplinary history. We have carefully reviewed the Sponsoring Firm's disciplinary history, but we note that the previous LOCs and AWCs against the Firm did not involve allegations of failure to supervise individuals, and we recognize that the Firm has taken steps to rectify its past deficiencies.

NASD Regulation certifies that X meets all applicable requirements for the proposed employment, and X and the Proposed Supervisor have represented that they are not related by blood or marriage. NASD Regulation provided the Pacific Stock Exchange and the Chicago Stock Exchange with notice of this proceeding and will provide them with a copy of this decision.

Accordingly, we approve X as a non-registered, associated person with the Sponsoring Firm. In conformity with the provisions of SEC Rule 19h-1, the association of X in a non-

registered capacity will become effective within 30 days of the receipt of this notice by the Commission, unless otherwise notified by the Commission.

On Behalf of the National Adjudicatory Council,

Barbara Z. Sweeney
Senior Vice President and Corporate Secretary