

BEFORE THE NATIONAL ADJUDICATORY COUNCIL

NASD

In the Matter of  
the Continued Association of

X

as a

General Securities Representative

with

The Sponsoring Firm

**Redacted Decision**

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

SD Decision No. 02007

On January 15, 2002, the Sponsoring Firm (or "the Firm") completed a Membership Continuance Application ("Form MC-400" or "Application") seeking to modify the terms and conditions of the supervisory plan of X<sup>1</sup>, a person subject to a statutory disqualification. X is currently registered as a general securities representative with the Firm. A hearing was not held in this matter. Rather, pursuant to NASD Procedural Rule 9523, NASD's Department of Member Regulation ("Member Regulation") recommended to the Chairman of the Statutory Disqualification Committee that X's continued association with the Firm be approved pursuant to the terms and conditions set forth below. The Firm consented to the imposition of the below terms and conditions in its Application.

A. X's Statutorily Disqualifying Event

X is subject to a statutory disqualification as a result of a Judgment of Permanent Injunction and Order of Disgorgement entered on consent in the United States District Court for State 1 in 1984. On that same date, the Commission instituted and concluded an administrative proceeding, barring X from association with any broker, dealer, municipal securities dealer, investment adviser, or investment company, with the proviso that after 12 months, he may make an application to become so associated.

B. Background Information

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<sup>1</sup> 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.

1. Prior SEC Rule 19h-1 Notices. X's association as a bond trader and special limited partner with a different firm was the subject of a Rule 19h-1 notice filed by the New York Stock Exchange ("NYSE") in August 1985 and approved by the Commission in September 1985. In April 1986, the NYSE filed another notice to approve X as an Allied Member of the NYSE and a general partner of that same firm. The Commission approved that notice in May 1986 ("1986 19h-1 Notice"). In January 1992, the NYSE filed a notification approving X's association as a registered representative, bond trader, and special limited partner, again with the same prior firm. The notification was acknowledged by the Commission in February 1992. In April 1994, NASD filed a notification with the Commission, pursuant to Rule 19h-1(a)(3)(ii), to permit X to become associated with Firm 1 as a registered representative.<sup>2</sup>

2. X

X was first registered in the securities industry in 1985 as a bond trader and special limited partner.

We are not aware of any other regulatory actions taken against X in any capacity.

3. The Firm

The Sponsoring Firm became a member of NASD in April 1991. The Firm has two offices of supervisory jurisdiction ("OSJ") and no branch offices. It employs 20 registered principals, 150 registered representatives, and 180 employees. The Firm acts as an interdealer broker of corporate debt, U.S. Government securities, mortgage-backed securities, and emerging market debt.

The Firm's 1999 and 2001 routine examinations resulted in Letters of Caution ("LOC"). In the 1999 examination, NASD found the Firm to be deficient for recordkeeping violations. In the 2001 examination, NASD found the Firm to be deficient for trade reporting violations. The Firm responded to both LOCs and stated that it had corrected the noted deficiencies.

X's last six statutory disqualification examinations were filed without action ("FWA").

The Sponsoring Firm has represented that it does not employ any other statutorily disqualified individuals. In addition, we are not aware of any other complaints, disciplinary proceedings, or arbitrations against the Firm. The Firm is not a member of any other self-regulatory organization.

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<sup>2</sup> Firm 1 is the predecessor to the Sponsoring Firm.

C. X's Proposed Business Activities and Supervision

The Sponsoring Firm proposes that X will continue to be employed in the Firm's home office as a broker of corporate debt securities. X will be compensated with an annual salary plus a quarterly discretionary bonus.

The Firm proposes that the Proposed Supervisor will continue to be X's primary, responsible supervisor. The Proposed Supervisor is a senior managing director in the Firm's home office. He is registered as a general securities representative (Series 7) and a general securities principal (Series 24). He has been registered as a principal since May 1992. The Proposed Supervisor has no disciplinary history and was first employed in the securities industry in 1977.

We know of no other disciplinary or regulatory proceedings, complaints, or arbitrations against the Proposed Supervisor.

X is currently being supervised under conditions established in the 1986 19h-1 Notice filed by the NYSE. Those conditions are as follows:

1. Regular review of X's overall business activity;
2. Daily observation of X's trading activity;
3. Regular review of X's activities through review of his commission runs;
4. A monthly compliance review. This special review will focus primarily on any personal trading done by X and will also encompass review of X's general activity to ensure compliance with the appropriate regulatory standards;
5. X will have no supervisory duties; and
6. Any personal accounts maintained by X or any family members must be maintained at his current Firm. His designated supervisor will review all confirmations and monthly statements.

In its Application, the Sponsoring Firm proposes the following changes to the current supervisory plan (the proposed changes are underlined and in bold type):

1. **Quarterly review** of X's overall business activities by the Proposed Supervisor;
2. **Quarterly review** of X's trading activity. This review will be evidenced by the Proposed Supervisor initialing a quarterly activity report;

3. **Quarterly review** of X's commission runs;
4. A **quarterly compliance review** for compliance with regulatory procedures and Firm policies;
5. X will have no supervisory duties; and
6. Any personal accounts held by X or any of his immediate family members will be subject to a monthly compliance review. Copies of confirmations and statements generated by any brokerage account will be sent directly to the Sponsoring Firm.

D. Discussion

After careful review of the entire record in this matter, we approve the Firm's Application to modify the terms and conditions of X's supervisory plan.

In reviewing this Application, we have considered the fact that X's disqualifying event occurred 18 years ago, and there has been no evidence of misconduct since that time. Since his disqualifying event, X has been in the securities industry more than 16 years, without any disciplinary issues or problems. We note that the last six statutory disqualification examinations of X have not resulted in any deficiencies for the Firm or his supervisors. We also note that the Proposed Supervisor has no regulatory disciplinary history and has supervised X since 1994, without incident. Finally, the Firm's disciplinary history does not reveal any formal disciplinary proceedings.

NASD 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.

Accordingly, in conformity with the provisions of SEC Rule 19h-1, the continued association of X as a general securities representative with the Sponsoring Firm under the above-listed changes to his supervisory plan will become effective upon the issuance of an order by the SEC that it will not institute proceedings pursuant to Section 15(b) of the Exchange Act and that it will not direct otherwise pursuant to Section 15A(g)(2) of the Exchange Act. This notice shall serve as an application for such an order.

On Behalf of the National Adjudicatory Council,

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Barbara Z. Sweeney  
Senior Vice President and Corporate Secretary