

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. ##

20041000025-01

TO: Department of Market Regulation
NASD

RE: **Bear, Stearns Securities Corporation**, Respondent
Broker-Dealer
CRD No. 28432

Pursuant to Rule 9216 of NASD Code of Procedure, Bear, Stearns Securities Corporation ("BSSC" or the "firm") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against BSSC alleging violations based on the same factual findings.

BSSC understands that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Department of Market Regulation and National Adjudicatory Council ("NAC") Review Subcommittee or Office of Disciplinary Affairs ("ODA"), pursuant to NASD Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against BSSC; and
3. If accepted:
 - a. this AWC will become part of BSSC's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against BSSC;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about BSSC's disciplinary record;
 - c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-2; and
 - d. BSSC 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 allegation in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects BSSC's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

BSSC also understands that the firm's experience in the securities industry and BSSC's disciplinary history may be factors that will be considered in deciding whether to accept this AWC.

BSSC has been a member of NASD since June 25, 1991 and its registration remains in effect. BSSC has no relevant disciplinary history.

I.

WAIVER OF PROCEDURAL RIGHTS

BSSC specifically and voluntarily waives the following rights granted under NASD's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against BSSC;
- B. To be notified of the Formal 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 NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, BSSC specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, 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 acceptance, or rejection of this AWC.

BSSC further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of 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.

II.

ACCEPTANCE AND CONSENT

The Department of Market Regulation staff (the "staff") conducted review 20041000025 (formerly referred to as MRD200238732) of BSSC's compliance with NASD Rule 3360 concerning short interest reporting for the period of February 1986 to June 2003. The staff also reviewed BSSC's written supervisory procedures concerning short interest reporting that were in effect from October 2001 through June 2003. The American Stock Exchange ("AMEX") simultaneously conducted its own review of BSSC's short interest reporting.

A. BSSC hereby accepts and consents, without admitting or denying the allegations or findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by NASD:

1. From February 1986 to June 2003, BSSC submitted to NASD inaccurate short interest position data in certain securities.
2. Based upon a review of a 21 month period of short interest reports from October 2001 to June 2003, BSSC inaccurately reported or failed to report its short interest positions to NASD. BSSC reported 1,614 short interest positions totaling 1,074,083,923 shares when it should have reported 2,049 short interest positions totaling 1,087,964,219 shares, resulting in a net underreporting of 13,880,296 shares, which represents approximately one percent of the total shares that BSSC should have reported during the whole review period. For one month tested, June 2003, the percentage of most of the short interest positions that BSSC failed to report as compared to the positions reported by the overall market was small. During that month, most of the short positions not reported by BSSC constituted less than one percent of the positions reported by the overall market.
3. The conduct described in paragraphs one and two constitutes separate and distinct violations of NASD Conduct Rule 3360.
4. From October 2001 to June 2003, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws, regulations, and the Rules of the NASD concerning short interest position reporting. The system lacked a review of the firm's automated short interest reporting systems. Specifically, the supervisory system did not include written supervisory procedures

providing for: (1) a statement of the supervisory step(s) to be taken by the person identified as responsible for compliance; (2) a statement as to how often such person(s) should take such step(s); and (3) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented.

5. The conduct described in paragraph four constitutes a violation of NASD Conduct Rules 2110 and 3010.

- B. BSSC also consents to the imposition, at a maximum, of the following sanctions:

A **censure**, a **\$250,000 fine** to be paid jointly to, and evenly divided between, NASD and the American Stock Exchange, and an undertaking to revise BSSC's written supervisory procedures with respect to the areas described in paragraphs four and five. Within 30 business days of acceptance of this AWC by the NAC, a registered principal of BSSC shall submit to the **COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850**, a signed, dated letter, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in paragraphs four and five; and (3) the date the revised procedures were implemented.

The sanctions imposed herein shall be effective on a date set by NASD staff.

III.

OTHER MATTERS

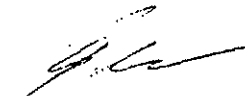
- A. BSSC understands that it may attach a Corrective Action Statement to this AWC which is a statement of demonstrable corrective steps taken to prevent future misconduct. BSSC understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by NASD nor does it reflect the views of NASD or its staff.
- B. BSSC agrees to pay any monetary sanctions imposed on it upon notice that this AWC has been accepted and that such payments are due and payable, and has attached an Election of Payment form showing the method by which BSSC proposes to pay any fine imposed.

- C. BSSC specifically and voluntarily waives any right to claim that BSSC is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

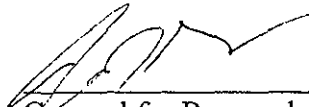
BSSC certifies that the firm has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce BSSC to submit it.

Respondent
Bear, Stearns Securities Corporation

2/11/07
Date

By: 
Name: Bruce Geismar
Title: Senior Managing Director

Reviewed by:


Counsel for Respondent

Accepted by NASD

2/16/07
Date


Cameron K. Funkhouser
Senior Vice President
Department of Market Regulation

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