

NASD **RECEIVED**
LETTER OF ACCEPTANCE, WAIVER AND CONSENT

20041000231-01 MAR 15 P 2:44

TO: Market Regulation Department
NASD

RE: **Schonfeld Securities, LLC**, Respondent
CRD No. 23304

Pursuant to Rule 9216 of the NASD Code of Procedure, Schonfeld Securities, LLC ("SHON" 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 the firm alleging violations based on the same factual findings.

The firm 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 Market Regulation Department 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 the firm; and
3. If accepted:
 - a. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by the NASD or any other regulator against the firm;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about the firm'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. the firm 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 finding in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects

the firm's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

SHON also understands that the firm's experience in the securities industry and the firm's disciplinary history may be factors that will be considered in deciding whether to accept this AWC. That experience and history are as follows:

SHON has been a member of NASD since November 21, 1988, and its registration remains in effect. SHON has the following relevant disciplinary history.

- In an AWC that became final on August 2, 2005, SHON was censured and fined \$15,000 for violating NASD Marketplace Rules 6955(a) and NASD Conduct Rules 2110 and 3010.

I.

WAIVER OF PROCEDURAL RIGHTS

SHON 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 the firm;
- 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, SHON 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.

SHON 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

In connection with 20041000231 (MRD200342197), the Market Regulation Department staff (the "staff") conducted a review of SHON's compliance with NASD's Short Interest Reporting rules during the period of July 2003. In connection with 20050016210, the staff conducted a review of SHON's compliance with NASD's Order Audit Trail System ("OATS") rules during the period of January 1, 2005 through March 31, 2005 (the "review period").

- A. SHON hereby accepts and consents, without admitting or denying the 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:

In connection with 20041000231 (MRD200342197):

1. In July 2003, SHON submitted to NASD its short interest position report. This report included 627 short interest positions totaling 23,363,766 shares, when the actual numbers were 501 short interest positions totaling 4,905,928 shares.
2. The conduct described in paragraph one above constitutes separate and distinct violations of NASD Conduct Rule 3360.

In connection with 20050016210:

3. On four days during the review period, SHON transmitted to OATS 4,935,025 Route or Combined Order/Route Reports that contained either inaccurate, incomplete or improperly formatted data. These inaccurate reports represented more than 6% of all Route or Combined Order/Route Reports transmitted by the firm during the review period.
4. The conduct described in paragraph three above constitutes separate and distinct violations of NASD Marketplace Rule 6955(a) and a violation of NASD Conduct Rule 2110.

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

A censure and a fine of \$15,000 (consisting of a \$10,000 fine for inaccurate short interest reporting and a \$5,000 fine for inaccurate OATS reporting).

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

III.

OTHER MATTERS

- A. SHON 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. SHON 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. SHON 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 the Election of Payment form showing the method by which the firm proposes to pay any fine imposed.
- C. SHON specifically and voluntarily waives any right to claim that SHON is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

3/14/06

Respondent

Name: Annemarie Cichy
Title: Chief Compliance Officer

Counsel for Respondent

5/11/06
Date

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Corrective Action Statement

Re: 20041000231/MRD200342197 - Short Interest Reporting

This will serve as the Schonfeld Securities, LLC (the "Firm") Corrective Action Statement dated March 14, 2006 regarding the Firm's Short Interest Reporting during the period July 2003.

The July 2003 Short Interest Reporting discrepancy was due to an isolated netting problem caused by the Firm's service bureau.

To ensure accurate reporting the Firm amended its Operational Policies and Procedures in September 2003 to include a supervisory review of the short interest/position reports submitted to the NASD.

This Corrective Action Statement is submitted by the Respondent. It does not constitute factual or legal findings by the NASD, nor does it reflect the views of the NASD.

Corrective Action Statement

Re: 200500016210 – OATS Reporting

This will serve as the Schonfeld Securities, LLC (the "Firm") Corrective Action Statement dated March 14, 2006 regarding the Order Audit Trail System ("OATS") reporting during the period of January 1, 2005 through March 31, 2005 (the "review period").

Of the 4,935,025 orders reported unmatched, 4,931,799, representing 99% of the total unmatched reporting, were isolated to a technical discrepancy. The Firm's order id submitted to the venues contained a space after the third character, while the Firm's data reported to OATS did not contain such a space. The Firm submits approximately 6 to 8 million orders on a daily basis totaling approximately 360,000,000 orders during the review period, of which 4,935,025 or 1.4% were unmatched as a result of this discrepancy.

The Firm re-assigned the review of OATS to a Senior Compliance Officer in April 2005. In addition, the Firm updated its Written Supervisory Procedures to include the supervision and review of Unmatched Reports.

This Corrective Action Statement is submitted by the Respondent. It does not constitute factual or legal findings by the NASD, nor does it reflect the views of the NASD.