

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
DEPARTMENT OF MARKET REGULATION

20050000057-01

TO: Department of Market Regulation
NASD

RE: Scottrade, Inc., Respondent
Broker/Dealer
CRD Number 8206

Pursuant to Rule 9216 of NASD Code of Procedure, Scottrade, Inc. ("SSIC" 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 SSIC alleging violations based on the same factual findings.

SSIC 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, 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 SSIC; and
3. If accepted:
 - a. this AWC will become part of SSIC's permanent disciplinary record and may be considered in any future actions brought by 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 SSIC'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. SSIC 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 SSIC's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

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

SSIC has been a member of NASD since May 1980, and the firm's registration remains in effect. SSIC's relevant disciplinary history is as follows:

- On September 6, 2005, an AWC became final in which SSIC was censured and fined \$20,000 for violations of NASD Rules 2110 and 6955(a).
- On August 19, 2004, an AWC became final in which SSIC was censured and fined \$16,000 for violations of NASD Rules 2110, 3010, and 6955(a).
- On November 7, 2001, an AWC became final in which SSIC was fined \$5,000 for violations of NASD Rules 2110 and 6955(a).

I.

WAIVER OF PROCEDURAL RIGHTS

SSIC 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 SSIC;
- 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, SSIC 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.

SSIC 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 20050000057, the staff of the Department of Market Regulation of NASD (the "staff") conducted a review of SSIC's compliance with the rules applicable to the Order Audit Trail System ("OATS") during the period January 1, 2004 through September 30, 2004.

In connection with 20060041319, the staff conducted a review of SSIC's compliance with the rules applicable to OATS during the period July 1, 2005 through September 30, 2005. The staff also reviewed the firm's supervisory system and written supervisory procedures in effect during the period July 1, 2005 through September 30, 2005.

- A. SSIC 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:

20050000057

1. During the period January 1, 2004 through September 30, 2004, SSIC failed to submit to OATS 1,497,882 Route Reports related to Cancel/Replace Reports.
2. The conduct described in paragraph one constitutes separate and distinct violations of NASD Marketplace Rule 6955(a).

20060041319

3. During the period July 1, 2005 through September 30, 2005, SSIC submitted to OATS 4,607 reports with respect to equity securities traded on the Nasdaq Stock Market (the "subject reports") that were not in the electronic form prescribed by NASD and were repairable. The subject reports were rejected by the OATS system and notice of such rejection was made available to the

firm on the OATS website. The firm did not correct or replace 949 of the subject reports, or 20 percent of the subject reports.

4. The conduct described in paragraph three constitutes separate and distinct violations of NASD Marketplace Rule 6955(a).
5. SSIC did not maintain written documents evidencing its Reporting Agent agreement(s) in effect during the period July 1, 2005 through September 30, 2005.
6. The conduct described in paragraph five constitutes a violation of NASD Marketplace Rule 6955(c).
7. During the review period the firm failed to enforce its written supervisory procedures that specified that the firm would maintain reports of each day's rejections with notations explaining what was repaired and resubmitted.
8. The conduct described in paragraph seven constitutes a violation of NASD Conduct Rules 2110 and 3010.

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

A censure and a fine of \$30,000 (comprised of a \$25,000 fine for the OATS violations in 20050000057 & 20060041319 and a \$5,000 fine for the supervision violation in 20060041319).

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

III.

OTHER MATTERS

- A. SSIC understands that it may attach a Corrective Action Statement to this AWC, which is a statement by the Respondent of demonstrable corrective steps taken to prevent future misconduct. Respondent 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. SSIC 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 have attached the election of payment form showing the method by which it proposes to pay any fine imposed.
- C. SSIC specifically and voluntarily waives any right to claim that SSIC is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

Scottrade, Inc. certifies that a duly authorized officer has read and understood 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 SSIC to submit it.

Scottrade, Inc.

Date: 5/18/06

By: [Signature]
Name: AC SMALL
Title: General Counsel

Reviewed by:

[Signature]
Counsel for Respondent

Accepted by NASD:

6/30/06
Date

Thomas R. Gira
Thomas R. Gira
Executive Vice President & Deputy
Market Regulation

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

Attachments:
Standard Election of Payment Form