

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT

20050008441-01

TO: Department of Market Regulation
NASD

RE: Associated Securities Corp., Respondent
Broker-Dealer
CRD No. 12969

Pursuant to Rule 9216 of NASD Code of Procedure, Associated Securities Corp. ("ASED") 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 ASED alleging violations based on the same factual findings.

ASED 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 ASED; and
3. If accepted:
 - a. this AWC will become part of ASED's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against ASED;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about ASED'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. ASED 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 ASED's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

ASED 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 history are as follows:

ASED has been a member of NASD since December 27, 1982 and its registration remains effective. ASED has no relevant disciplinary history.

I.

WAIVER OF PROCEDURAL RIGHTS

ASED 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 ASED;
- 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, ASED 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.

ASED 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 20050008441, the staff of NASD's Department of Market Regulation (the "staff") conducted a review of ASED's compliance with the Trade Reporting and Compliance Engine ("TRACE") rules during the period July 1, 2002 through February 14, 2005 (the "review period").

- A. ASED 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:
1. During the 31 months between July 1, 2002 and February 14, 2005, ASED executed 844 transactions in TRACE-eligible securities that it was required to report to TRACE.
 2. During the review period, ASED failed to execute a TRACE Participation Agreement and therefore was not eligible to participate in TRACE.
 3. The conduct described in paragraph two constitutes a violation of NASD Marketplace Rule 6220(a).
 4. During the review period, ASED failed to report to TRACE 844 transactions, or 100 percent of the transactions, in TRACE-eligible securities that it was required to report.
 5. The conduct described in paragraph four constitutes separate and distinct violations of NASD Marketplace Rule 6230(b).

6. During the review period, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the Rules of NASD, concerning TRACE. Specifically, the firm's supervisory system did not include written supervisory procedures providing for: (1) a statement of the supervisory step(s) to be taken by the identified person(s); (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.
7. The conduct described in paragraph six constitutes a violation of NASD Conduct Rules 2110 and 3010.

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

A censure and fine of \$15,000 (\$10,000 for TRACE violations during the review period and \$5,000 for deficient written supervisory procedures during the review period).

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

III.

OTHER MATTERS

- A. ASED understands that ASED may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. ASED understands that ASED 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. ASED agrees to pay any monetary sanctions imposed on ASED 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 ASED proposes to pay any fine imposed.
- C. ASED specifically and voluntarily waives any right to claim that ASED is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

ASED certifies that ASED 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 ASED to submit it.

July 28, 2006
Date

Respondent
Associated Securities Corp.

By: [Signature]
Name: DENISE EVANS
Title: SR VP, GENERAL Counsel

Reviewed by:

[Signature]
Counsel for Respondent

Accepted by NASD:

10/26/06
Date

[Signature]
Thomas R. Gira
Executive Vice President & Deputy
Department of Market Regulation

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

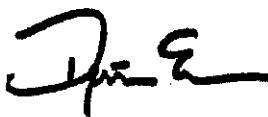
**Associated Securities Corp.'s
"Statement of Corrective Action"
In Connection With Letter of Acceptance, Waiver and Consent**

Associated Securities Corp. ("ASED") submits the following Statement of Corrective Action in connection with the attached "Letter of Acceptance, Waiver and Consent." This Corrective Action Statement is submitted by ASED. It does not constitute factual or legal findings by the NASD, nor does it reflect the views of the NASD, or its staff. As set forth in the attached Letter of Acceptance, Waiver and Consent ("AWC"), this matter relates to transactions in TRACE-eligible securities during the period from July 1, 2002 through February 14, 2005 (the "Review Period"):

- A. At all times during the Review Period, ASED's clearing firm's electronic bond order entry system ("BOES") indicated to ASED that its TRACE eligible trades were being reported in a timely fashion.
- B. Beginning July 1, 2002, each TRACE eligible transaction that was entered into the BOES system reflected the designation "REG RPT: Y Y." ASC was advised that the first "Y" designated the transaction as a TRACE eligible security, and that the second "Y" confirmed that the transaction had been reported by ASED's clearing firm on its behalf.
- C. Immediately upon learning in March, 2005 that the required reports were not being made to TRACE, ASED executed another TRACE Participation Agreement with its clearing firm, and independently confirmed that its clearing firm was reporting all TRACE-eligible transactions on ASED's behalf from that date forward.
- D. ASED also immediately directed its clearing firm to enter all of ASED's previously non-reported TRACE-eligible transactions from the Review Period through March, 2005. Thereafter, all prior transactions that could be entered and accepted as of that date were reported on NASD's TRACE system. On or about May 17, 2005, ASED paid to the NASD all costs associated with the late "as of" trade reporting fee for the entry of the necessary reports for all of those transactions.
- E. ASED, of its own volition, also promptly amended its written supervisory procedures regarding TRACE reporting to ensure prompt reporting of its TRACE-eligible trades by its clearing firm, and to confirm that those reports were being made in a timely fashion.

Date: October 6, 2006

ASSOCIATED SECURITIES CORP.



By: Denise M. Evans, Esq.
Its: Sr VP, General Counsel