

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2005002244201**

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FINANCIAL INDUSTRY & DISCLOSURE

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: WM Financial Services, Inc. (n/k/a WaMu Investments, Inc.)
CRD # 599

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, WM Financial Services, Inc. ("WMFS" 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 below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. WMFS 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 FINRA, or to which FINRA 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 FINRA:

BACKGROUND

WaMu Investments, Inc. (f/k/a WM Financial Services, Inc.) is a registered broker-dealer based in Irvine, CA, and has been a FINRA member since 1936. The firm became an affiliate of JPMorgan Chase Bank, N.A. in September 2008. The firm has 1,704 active branches and 1,811 registered personnel and provides a full range of brokerage services to its customers. The firm has no relevant prior disciplinary history.

OVERVIEW

Between March 2004 and April 2005 (the "relevant period"), WMFS violated NASD Rule 3010 by failing to establish and maintain an adequate supervisory system, including written procedures, to supervise its sales of unit investment trusts (UITs) and exchanges from variable annuities (VAs) and mutual funds to UITs and by failing to adequately investigate patterns of potentially unsuitable exchanges from VAs and mutual funds to UITs. UITs are investment companies that offer redeemable shares, or units, of a generally fixed portfolio of securities and terminate on a specified date.

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Moreover, the firm failed to capture and retain certain electronic communications until November 2006, in violation of NASD Rules 3010, 3110 and SEC Rules 17a-3 and 17a-4.

FACTS AND VIOLATIVE CONDUCT

WMFS Had Inadequate Systems and Procedures to Supervise UIT Sales and UIT, VA, and Mutual Fund Exchange Transactions

Broker-dealers are required to have supervisory systems and procedures appropriately tailored to their business and adequate to provide reasonable assurance that they are complying with applicable securities laws and FINRA rules.

WMFS's supervisory structure included regional sales managers (RSMs), who were based in Offices of Supervisory Jurisdiction (OSJs) and directly supervised the firm's brokers. The firm delegated transaction review and approval to principals in the Principal Group ("Compliance Principals"), who were based in the firm's headquarters. In addition, the firm's Compliance Specialists, who were part of the Compliance Department, were responsible for reviewing the firm's business for compliance with securities rules and regulations.

WMFS's systems and procedures governing UIT sales and exchanges from VAs and mutual funds to UITs were neither robust nor appropriately tailored to the firm's business. Its written supervisory procedures (WSPs) required that Compliance Specialists review monthly exception reports, including a report that identified all exchange transactions between UITs, VAs and mutual funds, but offered no guidance to Compliance Specialists on how to analyze the reports. For example, the WSPs did not provide criteria for Compliance Specialists to identify patterns of exchanges by individual brokers over a period of time and determine whether exchange transactions were suitable. Moreover, RSMs, who were charged with supervising the brokers, had access to the same reports, but were not required to review them.

The firm's WSPs required certain paperwork to be completed for each exchange, but provided no guidance to the firm's principals on how to use the information captured in the paperwork to determine whether the exchange was suitable. For example, the firm required that the exchange paperwork disclose a written rationale for each exchange and all fees, including surrender charges, but offered no guidance to principals to help them assess the rationale or analyze the fees and surrender charges to determine if the exchange was suitable: that is, whether the benefit of the new product outweighed the cost of the exchange.

In addition, although the firm's brokers actively solicited sales and exchanges of UITs, the firm had no systems and procedures explicitly addressing UITs and therefore did not have systems and procedures reasonably designed to supervise its registered

representatives' sales of UITs to their customers. A UIT is a portfolio of securities created in a trust with a defined termination date. UITs usually are created in terms from six months to seven years and, in general, UITs are designed to be held for the duration of the trust. As with certain share classes of mutual funds, UITs charge customers initial sales charges at the time of purchase (usually 1-2%) but unlike those same mutual funds, UITs also charge deferred charges during the first several months after purchase, often totaling over 5%. The firm's procedures did not provide principals with guidance specific to UITs nor did they explicitly address potential abuses relating to UIT transactions. Thus, for example, the firm did not have systems and procedures in place to provide adequate assurances that its brokers were not recommending that their customers purchase UITs based on the generally lower fee structure when compared to mutual funds, and then recommending the sale or exchange of the UITs before end of the UIT term, resulting in effectively higher fees than may have been promised for the customers.

Accordingly, WMFS violated NASD Rules 3010 and 2110.

WMFS Failed to Supervise UIT Sales and Exchanges

During the relevant period, the firm failed to respond adequately to red flags of potentially unsuitable UIT transactions and exchanges. A number of WMFS brokers engaged in a large volume of UIT sales and exchanges that raised red flags and for certain WMFS brokers, the Compliance Department flagged a large number of exchanges from mutual funds and VAs to UITs, and recommended certain steps to heighten supervision of the brokers' activities. The firm failed to address adequately these red flags. Accordingly, WMFS violated NASD Rules 3010 and 2110.

WMFS Failed to Adequately Capture and Retain Electronic Communications

Until December 2003, WMFS had no firm-wide systematic method of retaining electronic communications ("e-mail"). Between December 2003 and November 2006, the firm's archiving system failed to properly retain all emails. Until May 2006, the firm also failed to test the system to ensure that it was complying with recordkeeping requirements under federal law and NASD rules relating to e-mail. Approximately 369,145 emails (or 1.4% of all emails during that time), which may have included emails related to business as such, were irretrievable. Therefore, the firm violated NASD Rule 3010, 3110, and SEC Rules 17a-3 and 17a-4.

B. The firm consents to the imposition of the following sanctions:

1. Censure.
2. A fine of \$250,000.

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

II.

WAIVER OF PROCEDURAL RIGHTS

WMFS specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against WMFS;
- 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 National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, WMFS 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.

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

III.

OTHER MATTERS

WMFS understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against WMFS; and
- C. If accepted:
 - 1. this AWC will become part of WMFS's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the firm;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about WMFS's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. WMFS 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. WMFS may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm 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 FINRA, nor does it reflect the views of FINRA or its staff.

WMFS certifies that it has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that WMFS has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce WMFS to submit it.

WaMu Investments, Inc.
Respondent

5/29/09
Date

By: Robert Cecilio
Robert Cecilio
President, WaMu Investments, Inc.

Reviewed by:

Christian J. Mixer
Christian J. Mixer
Counsel for Respondent
Morgan Lewis
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Phone: 202-739-5575

Accepted by FINRA:

7/23/09
Date

Signed on behalf of the
Director of ODA by delegated authority

James E. Day
James E. Day
Chief Counsel and Associate Vice
President
FINRA Department of Enforcement
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