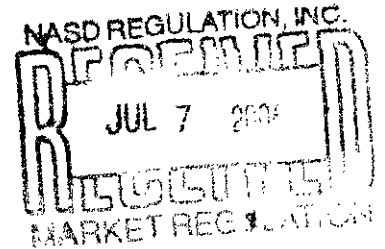


NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
DEPARTMENT OF MARKET REGULATION

20050023240-01

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 the 2005 Trading and Market Making Surveillance Examination of SSIC, 20050023240, the staff reviewed the following items from trade date July 21, 2005:

- 50 customer transactions and 25 proprietary transactions for compliance with NASD Rules 3110, 3350, 3370, and 6130;
- 70 customer orders for compliance with NASD Rules 3110 and 6130;
- 10 open limit orders for compliance with NASD Rule 3220;
- 50 orders handled by the firm during July 2005 for compliance with SEC Rule 11Ac1-5, now known as SEC Rule 605;
- The data published on the firm's quarterly order routing report for compliance with SEC Rule 11Ac1-6, now known as SEC Rule 606;
- The written supervisory procedures in effect during September 2005 for compliance with NASD Rule 3010;
- The registration status of persons engaged in the firm's trading and market making activities for compliance with NASD Registration rules;
- 63 orders in Nasdaq National Market ("NNM") and Nasdaq SmallCap ("SC") securities for compliance with NASD Rule 6955;
- 50 customer trade confirmations for compliance with SEC Rule 10b-10; and
- 205 transactions for preparation and maintenance of books and records in accordance with NASD Rule 3110 and SEC Rules 17a-3 and 17a-4.

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:

1. 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 the One Percent Rule,

Anti-Intimidation, OATS Clock Synchronization, and Books and Records. Specifically, the firm's supervisory system did not include written supervisory procedures providing for one or more of the following: (1) identification of the person(s) responsible for supervision with respect to the applicable rules; (2) a statement of the supervisory step(s) to be taken by the identified person(s); (3) a statement as to how often such person(s) should take such step(s); and (4) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented.

2. The conduct described in paragraph one constitutes a violation of NASD Conduct Rules 2110 and 3010.
3. SSIC failed to submit a Combined Order/Route report for 33 orders received and fully routed in the same day.
4. In nine instances, SSIC failed to submit to OATS a Route Report following customer modification of a previously electronically routed order.
5. The conduct described in paragraphs three and four above constitute separate and distinct violations of NASD Marketplace Rule 6955(a).
6. On 15 occasions, SSIC incorrectly included on a customer confirmation a notation disclosing to its customer that the firm was a market maker in the subject security.
7. The conduct described in paragraph six above constitutes separate and distinct violations of SEC Rule 10b-10.
8. SSIC failed to notify customers at least annually in writing that a written copy of the quarterly report on the firm's routing of non-directed orders in covered securities will be furnished on request.
9. The conduct described in paragraph eight constitutes a violation of SEC Rule 11Ac1-6, now Regulation NMS Rule 606.

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

A censure, a fine of \$27,500 (comprised of a \$5,000 fine for the supervisory procedures violation, a \$7,500 fine for the OATS violations, a \$5,000 fine for the SEC Rule 10b-10 violations, and a \$10,000 fine for the SEC Rule 11Ac1-6 violation), and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraph one. Within 30 business days of acceptance of this AWC by the NAC, a registered principal of the Respondent 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 paragraph one; 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. 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.

