

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20050025075-02**

RECEIVED
2005 JAN -6 P 7:45
ADMINISTRATIVE & DISCLOSURE

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

RE: Scottrade, Inc., Respondent
Broker-Dealer
CRD No. 8206

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Scottrade, Inc. (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. The firm 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

The firm has been a member of FINRA since May 23, 1980 and its registration remains in effect. The firm has the following relevant prior disciplinary history:

On July 5, 2005, FINRA accepted an AWC in which the firm was censured and fined \$20,000 for NASD Rule 6955 violations.

On August 19, 2004, FINRA accepted an AWC in which the firm was censured and fined \$16,000 consisting of a \$10,000 fine for NASD Rule 6955 violations and a \$6,000 fine for deficient written supervisory procedures.

SUMMARY

In connection with matter 20050025075, the Department of Market Regulation staff (the "staff") conducted a review of the firm's compliance with electronic blue sheet submission requirements during the period January 1, 2005 through August 31, 2005 (the "EBS review period").

In connection with matter 20050035397, the staff conducted a review of the firm's compliance with Order Audit Trail System ("OATS") reporting requirements during the period July 1, 2005 through September 30, 2005.

In connection with matter 20060068667, the staff conducted a review of the firm's compliance with OATS reporting requirements during the period November 2005 through June 2006.

In connection with matter 20060062909, the staff conducted a review of the firm's compliance with OATS reporting requirements during the period January 1, 2006 through March 31, 2006.

In connection with matter 20070079761, the staff conducted a review of the firm's compliance with OATS reporting requirements during the period April 1, 2006 through July 31, 2006.

In connection with matter 20060041355, the staff conducted a review of the firm's compliance with short interest reporting requirements on September 15, 2005, December 15, 2005 and June 15, 2006.

FACTS AND VIOLATIVE CONDUCT

20050025075

1. During the EBS review period, the firm failed to report accurate trading information through the submission of electronic blue sheets in response to requests for such information by FINRA. Specifically, the firm failed to include the short sale indicator for 8,863 electronic blue sheet records. These inaccurate electronic blue sheet records represent two percent of all electronic blue sheet records (348,552) transmitted by the firm during the EBS review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 8211 and 8213.
2. 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 electronic blue sheet submission requirements. Specifically, the firm's supervisory system did not include written supervisory procedures providing for: (1) the 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. The conduct described in this paragraph constitutes a violation of NASD Rules 2110 and 3010.

20050035397

3. During the period July 1, 2005 through September 30, 2005, the firm transmitted to OATS 25,449 Route or Combined Order/Route Reports that the OATS system was unable to link to the corresponding new order transmitted by the destination member firm due to inaccurate, incomplete or improperly formatted data. These 25,449 Route or Combined Order/Route Reports represented nine percent of all match-eligible Route or Combined Order/Route Reports (261,968) that the firm transmitted to OATS during the period July 1, 2005 through September 30, 2005. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).

20060068667

4. During the period November 1, 2005 through May 31, 2006, the firm failed to transmit 1,058,627 Reportable Order Events ("ROEs") to OATS on 145 business days. These 1,058,627 ROEs represented seven percent of all ROEs (14,291,366) that the firm was required to transmit to OATS during the period November 1, 2005 through May 31, 2006. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).
5. During the period April 2006 through June 2006, the firm transmitted to OATS 18,608 ROEs that were rejected by OATS for context or syntax errors. The firm failed to repair 12,984 of the rejected ROEs, representing 69 percent of all rejected ROEs. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).

20060062909

6. During the period January 1, 2006 through March 31, 2006, the firm failed to timely report to OATS 137,802 ROEs. The firm also transmitted to OATS 5,476 execution reports that contained inaccurate, incomplete, or improperly formatted data. Because of the inaccurate, missing, or improperly formatted data, the OATS system was unable to link the execution reports to the related trade reports in an NASD trade reporting system. In addition, the firm transmitted to OATS 37,429 Route or Combined Order/Route Reports that the OATS system was unable to link to the corresponding new order transmitted by the destination member firm due to inaccurate, incomplete or improperly formatted data. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).

20070079761

7. During the period April 1, 2006 through July 31, 2006, the firm transmitted to OATS 20,737 Route or Combined Order/Route Reports that the OATS system was unable to link to the corresponding new order transmitted by the destination member firm due to inaccurate, incomplete or improperly formatted data. These 20,737 Route or Combined Order/Route Reports represented 12 percent of all match-eligible Route or Combined Order/Route Reports (170,417) that the firm transmitted to OATS during the period April 1, 2006 through July 31, 2006. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).

20060041355

8. On September 15, 2005, December 15, 2005 and June 15, 2006, the firm submitted to NASD its short interest position reports in Nasdaq and exchange-listed securities. These reports included 5,429 short interest positions totaling 20,412,973 shares when the firm should have reported 5,578 short interest positions totaling 20,831,442 shares. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 3360.
9. 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 short interest reporting. Specifically, the firm's supervisory system did not include written supervisory procedures providing for: (1) the 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. The conduct described in this paragraph constitutes a violation of NASD Rules 2110 and 3010.

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

A censure and fine of \$90,000 comprised of:

- \$12,500 fine comprised of a \$7,500 fine for electronic blue sheet violations and a \$5,000 fine for deficient written supervisory procedures in connection with matter 20050025075;
- \$15,000 fine for the OATS reporting violations in connection with matter 20050035397;
- \$20,000 fine for the OATS reporting violations in connection with matter 20060068667;
- \$15,000 fine for the OATS reporting violations in connection with matter 20060062909;

- \$12,500 fine for the OATS reporting violations in connection with matter 20070079761;
- \$15,000 fine comprised of a \$10,000 fine for the short interest reporting violations and a \$5,000 fine for deficient written supervisory procedures in connection with matter 20060041355; and

an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraph two. 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, or an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, 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 two; and, (3) the date the revised procedures were implemented.

The firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against the firm;
- B. To be notified of the 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, the firm 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.

The firm 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

The firm 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 the firm; and
- C. If accepted:
 - 1. this AWC will become part of the firm'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 the firm'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. 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. The firm 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.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's 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 the firm to submit it.

11/9/07
Date

Scottrade, Inc.

By: [Signature]

Name: A.C. SMALL

Title: General Counsel

Reviewed by:

[Signature]
N.A.

Attorney Name

Counsel for Respondent

Accepted by FINRA:

1/6/10
Date

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

Thomas R. Gira
Thomas R. Gira
Executive Vice President
Department of Market Regulation