

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20060037178-01**

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REGISTRATION & DISCLOSURE

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

RE: First Republic Group, LLC, Respondent
Member Firm
BD No. 39781

Pursuant to NASD Rule 9216 of FINRA's Code of Procedure, First Republic Group, LLC ("First Republic" 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 First Republic alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. First Republic 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

1. First Republic has been a member of FINRA since August 12, 1996. The Firm employs approximately 61 persons registered with FINRA and engages primarily in agency-related transactions on behalf of retail customers. The Firm's main office is located in New York, New York.

RELEVANT PRIOR DISCIPLINARY HISTORY

2. The Firm has not been the subject of any relevant formal disciplinary actions within the last five years.

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OVERVIEW

3. First Republic failed to have an adequate supervisory system for three brokers whom the firm had designated for heightened supervision at different periods between March 1, 2005 and March 4, 2007. Additionally, during the period March 6, 2005 through August 6, 2006, First Republic failed to adequately maintain certain customer account records.

FACTS AND VIOLATIVE CONDUCT

Inadequate Supervisory System for Brokers Requiring Heightened Supervision

4. The Firm identified brokers TK, JE and EP for heightened supervision on March 1, 2005, September 1, 2005, and December 12, 2005, respectively, due to customer complaints alleging, among other things, unauthorized trading and/or failure to follow directions.
5. From the time the Firm identified each of these brokers for heightened supervision through February 15, 2007 (in the case of EP) and through March 4, 2007 (in the case of TK and JE), the Firm failed to adequately supervise these respective brokers to ensure their compliance with the applicable securities laws and regulations and FINRA rules.
6. During the above-referenced periods, in connection with these three brokers subject to heightened scrutiny, the Firm failed to (i) ensure that a principal of the Firm review new account documentation and accept new customer accounts, (ii) adequately investigate rates of first trade cancellations by new customers, which, by way of example, ranged from 7.8% to 44% for the three brokers during the period May 2006 through July 2006, and (iii) conduct a detailed review of customer account activity with sufficient frequency.
7. Under the circumstances, the Firm's supervisory system with respect to these three brokers requiring heightened scrutiny was inadequate to ensure against unauthorized trading and other misconduct based upon various red flags, including the nature of customer complaints received, incomplete customer account documentation and the high rate of trade cancellations. Despite a consistent high rate of trade cancellations, the Firm did not independently verify broker explanations regarding the reason trades were cancelled. Additionally, the Firm did not conduct a detailed review of customer account activity more than once per month when more frequent, in-depth oversight was warranted under the circumstances.
8. By reason of the foregoing, First Republic violated NASD Conduct Rules 3010 and 2110.

Failure to Maintain Certain Required Customer Account Records

9. Out of a sample of 48 new customer accounts opened during the period March 6, 2005 through August 6, 2006, First Republic failed to maintain account records with the signature of the registered representative introducing the account and the signature of the principal of the Firm who accepted the account for 38 (or 79%) of the accounts. The account record deficiencies involved customer accounts in which initial securities transactions were executed and subsequently cancelled, prior to settlement.
 10. By reason of the foregoing, First Republic violated SEC Rule 17a-3(a)(17)(i)(A) and NASD Conduct Rules 3110(c)(1)(C) and 2110.
- B. First Republic also consents to the imposition of the following sanctions:
1. A censure; and
 2. A fine in the amount of \$45,000.
- C. First Republic agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. First Republic has submitted an Election of Payment form showing the method by which the Firm proposes to pay the fine imposed.
- D. The Firm specifically and voluntarily waives any right to claim that the Firm is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

First Republic 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 the Firm;
- 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, First Republic 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.

First Republic further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of NASD Rule 9143 or the separation of functions prohibitions of NASD 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

First Republic 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 NASD 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 NASD Rule 8310 and IM-

8310-3; and

4. First Republic 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. First Republic 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 First Republic's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. First Republic may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. First Republic 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.

First Republic certifies that the Firm has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that First Republic 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 the Firm to submit it.

11/05/07
Date

D. Grant Morgan ON BEHALF OF FIRST REPUBLIC GROUP, LLC
First Republic Group, LLC, Respondent

By: D. GRANT MORGAN, JR. MANAGING DIRECTOR
[Name and title]

Reviewed by:

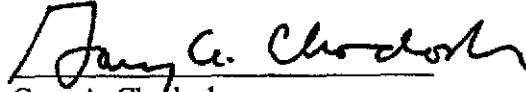
Bob E. Lehman
Bob E. Lehman, Esq.
Counsel for Respondent
Lehman & Eilen LLP
50 Charles Lindbergh Blvd., Suite 505
Uniondale, New York 11553
Tel.: (516) 222-0888

Accepted by FINRA:

December 10, 2007

Date

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

A handwritten signature in black ink, appearing to read "Gary A. Chodosh", written over a horizontal line.

Gary A. Chodosh
Regional Counsel
FINRA Department of Enforcement
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