

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20060058349**

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REGISTRATION & DISCLOSURE
FINRA
SAN FRANCISCO DISTRICT OFFICE

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

RE: Charles Schwab & Co., Inc., Respondent
FINRA Member Firm, CRD No. 5393

Pursuant to NASD Rule 9216 of FINRA's Code of Procedure, Respondent 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. Respondent 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

Charles Schwab & Co., Inc. (CSCI) has been a member of FINRA since October 1970 and is also a member of the Municipal Securities Rulemaking Board (MSRB). The firm employs approximately 6,575 registered representatives who are located in its main office and approximately 410 branch offices.

RELEVANT PRIOR DISCIPLINARY HISTORY

On January 28, 2005, FINRA accepted a Letter of Acceptance, Waiver and Consent (AWC) in which CSCI consented to findings of violation of MSRB Rules G-14 and G-27 in that the firm incorrectly reported 720 municipal transactions that had previously been reported. Also, the firm's supervisory system failed to provide for supervision reasonably designed

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to achieve compliance with MSRB Rule G-27. The firm agreed to sanctions of a censure and a fine of \$17,500.

On June 28, 2004, FINRA accepted a Letter of Acceptance, Waiver and Consent in which CSCI consented to findings of violation of MSRB Rules G-17 and G-30(A) in that the firm relied solely on the bids provided by a broker's broker to determine the fair market value in the liquidation of six municipal security positions for customers. The prices paid to customers ranged from 6.57% to 38.57% below the fair market value. The firm agreed to sanctions of a censure and a fine of \$30,000.

FACTS AND VIOLATIVE CONDUCT

Between 2000 and 2006 Charles Schwab & Co., Inc. sold a total of 845 municipal securities to retail clients, containing mandatory redemption features (sinking funds). The firm provided the retail customers with transaction confirmations that disclosed the bonds as "non-callable." The confirmations, however, should have disclosed to the customers that while the bonds were technically considered "non-callable," the bond issuers could begin calling these bonds from customers in controlled numbers a few years before the bonds' maturity dates.

The foregoing acts, practices and conduct constitute separate and distinct violations of MSRB Rule G-15 by Respondent Charles Schwab & Co., Inc

OTHER FACTORS

B. Respondent also consents to the imposition of the following sanctions:

1. Charles Schwab & Co., Inc. shall be censured and pay a fine of \$38,000.

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

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

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

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent 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, Respondent 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.

Respondent 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

Respondent 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. Respondent 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. Respondent 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. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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.

An officer of Charles Schwab & Co., Inc., who is authorized to act on behalf of the firm, certifies that they have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that they have 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.

6-12-08
Date

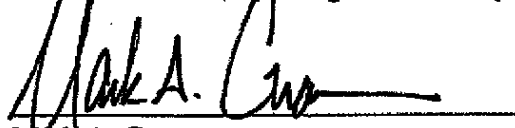

Charles Schwab & Co., Inc.

By: STEVE SCHOENFELD - VP FIXED INCOME
SALES & SERVICE
[Print Name and Title]

Accepted by FINRA:

7/24/2008
Date

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


Mark A. Graves
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FINRA Department of Enforcement
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