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FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20060058718-01

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REGISTRATION & DISCLOSURE
FINANCIAL INDUSTRY REGULATORY AUTHORITY

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

RE: Domestic Securities, Inc., Respondent
Broker-Dealer
CRD No. 34721

Pursuant to Rule 9216 of the FINRA Code of Procedure, Domestic Securities, 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 6, 1994, and its registration remains in effect.

RELEVANT PRIOR DISCIPLINARY HISTORY

The firm understands that its disciplinary history may be a factor that will be considered in deciding whether to accept this AWC. The firm's relevant disciplinary history is as follows. On January 9, 2007, NASD accepted an AWC in which the firm was censured, fined \$28,000 and entered into a supervisory undertaking for violations of NASD Conduct Rules 2110 and 3010 and NASD Marketplace Rules 4632, 6130, and 6620 that were identified during the firm's Trading and Market Making Surveillance ("TMMS") Examinations with respect to trading activity during 2004 and 2005.

VIOLATIVE CONDUCT BY RESPONDENT

In TMMS Examination No. 20060058718, the staff reviewed the trading activity of the firm set forth in Exhibit 1 for trade dates June 7-8, 2006, unless otherwise noted.

In TMMS Examination No. 20070097937, the staff reviewed the trading activity of the firm set forth in Exhibit 2 for trade dates June 27-28, 2007, unless otherwise noted.

In connection with TMMS Examination No. 20060058718,

1. The firm failed to report to the Nasdaq Market Center ("NMC") the correct symbol indicating whether the transaction was a buy, sell, sell short, sell short exempt or cross for twelve transactions in eligible securities. The firm accepted in the NMC reports of twelve transactions in eligible securities that did not reflect the correct symbol indicating whether the firm acted in a principal or agency capacity. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6130(d).
2. In two instances, the firm incorrectly reported to the NMC a clearing-only or non-tape, non-clearing report, because the firm incorrectly designated two transactions in OTC Equity securities as offsetting, "riskless" portions of "riskless" principal transactions when the transactions should have been media reported as principal transactions instead. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6620(d).

In connection with TMMS Examination No. 20070097937,

3. The firm incorrectly reported to the OTC Reporting Facility the second leg of six "riskless" principal transaction(s) in designated securities because it incorrectly designated the capacity of such transaction(s) as "principal." The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6620(d).
4. The firm failed to report the correct time of execution to the OTC Reporting Facility in four last sale reports of transactions in OTC Equity securities. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6620(c)(5).

5. The firm failed to report to the OTC Reporting Facility the correct symbol indicating whether the firm executed thirteen transactions in OTC Equity securities in a principal or agency capacity. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6130(d)(7).
6. The firm failed to report to the OTC Reporting Facility the cancellation of one trade previously submitted to the OTC Reporting Facility, and failed to timely report to the OTC Reporting Facility the cancellation of one trade previously submitted to the OTC Reporting Facility. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6620(f).
7. The firm incorrectly designated as ".W" to the Trade Reporting Facility three last sale reports of transactions in designated securities. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 4632(a).

In connection with TMMS Examination Nos. 20060058718 and 20070097937,

8. The firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to certain applicable securities laws and regulations, and/or the Rules of NASD. At a minimum, adequate written supervisory procedures addressing quality of markets topics should describe the following:
 - (a) specific identification of the individual(s) responsible for supervision;
 - (b) the supervisory steps and reviews to be taken by the appropriate supervisor;
 - (c) the frequency of such reviews; and
 - (d) how such reviews shall be documented.

The firm's written supervisory procedures failed to provide for one or more of the four above-cited minimum requirements for adequate written supervisory procedures, in the following subject areas: Firm Personnel Registration and Supervisory Qualifications [(b) and (d)]; Short Sales Trade Report Input and Order Marking [(a), (b), (c) and (d)]; Short Sale Locates [(a), (b), (c) and (d)]; and, OATS [(b) and (d)]. The conduct described in this paragraph constitutes a

violation of NASD Conduct Rules 2110 and 3010.

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

A censure, a \$15,000 fine (consisting of \$10,000 for the combined trade reporting violations from both the abovementioned examinations, and \$5,000 for the combined supervisory violations from both the abovementioned examinations), and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraph I.A.8. Within 30 business days of acceptance of this AWC by the National Adjudicatory Council ("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 this paragraph; 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 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 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 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

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 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. 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 the firm 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 firm 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 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.

9-18-08
Date

Respondent
Domestic Securities, Inc.

By: [Signature]

Name: JOSEPH MESSINA

Title: CHIEF COMPLIANCE OFFICER

Reviewed by:

Attorney Name
Counsel for Respondent
Firm Name

Accepted by FINRA:

10/08/08
Date

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

[Signature]
Thomas R. Gira
Executive Vice President
Department of Market Regulation