

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20060061914-01**

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

RE: ~~Northeast Securities, Inc.~~, Respondent
Broker-Dealer
CRD No. ~~25996~~

Pursuant to NASD Rule 9216 of the FINRA Code of Procedure, Northeast Securities, Inc. (the "firm" or "NESC") 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

NESC has been a member of FINRA since April 25, 1990. The firm's registration remains in effect.

RELEVANT PRIOR DISCIPLINARY HISTORY

The firm does not have any relevant disciplinary history.

SUMMARY

This matter arose out of the 2006 Trading and Market Making Surveillance Examination of the firm conducted by the staff, wherein the staff reviewed the items set forth on Exhibit A. Unless otherwise stated, the samples

were from trade dates August 1, 2006 through August 15, 2006 ("2006 TMMS review period").

FACTS AND VIOLATIVE CONDUCT

1. During the 2006 TMMS review period, the firm failed to submit required information to OATS and submitted inaccurate information to OATS. Specifically, the firm failed to submit two route reports to OATS. In three instances, the firm submitted the incorrect order entry time to OATS. In one instance, the firm failed to submit an order report to OATS. These inaccurate and/or missing reports represented 12 percent of the sample of orders reviewed in the TMMS examination that the firm transmitted during the 2006 TMMS review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6955(a).
2. During the 12 months preceding August 2006, the firm failed to notify customers in writing at least annually of the availability on request of the following information: the identity of the venue to which the customer's orders were routed for execution in the six months prior to the request, whether the orders were directed orders or non-directed orders, and the time of the transactions, if any, that resulted from such orders. For the second calendar quarter of 2006, the firm made available a report on its routing of non-directed orders in covered securities that included incorrect information as to its order routing. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 606 of Regulation NMS.
3. The firm failed to show the correct time of execution on the memorandum of 10 brokerage orders. The firm failed to show the correct time of entry on the memorandum of five brokerage orders. The firm failed to show the terms and conditions on the memorandum of 15 brokerage orders. The firm failed to show the time of execution on the memorandum of three brokerage orders. The firm failed to show the accurate terms and conditions on the memorandum of one brokerage order. The firm failed to show the time of entry on the memorandum of 13 brokerage orders. The firm failed to show partial executions on the memorandum of three brokerage orders. The firm failed to show the time of execution in seconds for seven executions on the memorandum of one brokerage order. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 17a-3 and NASD Conduct Rule 3110.

4. The firm failed to preserve for a period of not less than three years, the first two in an accessible place, the memorandum of three brokerage orders and two customer account statements. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 17a-4 and NASD Conduct Rule 3110.
5. 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: SEC Rule 606, SEC Rules 202 and 203, market order protection, soft dollars, physical security of equipment, best execution and trading halts [a through d]; Chinese Walls, record keeping, anti-competitive practices, firm quotations, OATS clock synchronization, and OATS [b through d]; registration [b and d]; qualification of supervisors [a, c and d]; limit order display and the three-quote rule [b]; and short sale order marking, short sale indicator reporting, and accepting trade reports within 20 minutes [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 fine of \$25,000 (composed of a \$5,000 fine for the record keeping violations, a \$5,000 fine for the OATS violations, a \$10,000 fine for the SEC Rule 606 violations and a \$5,000 fine for the supervision violation); and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraph five. 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 five; 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 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 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 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 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.

12/9/08
Date

Respondent
Northeast Securities, Inc.

By: Steve Perrone

Name: Steve Perrone

Title: Chairman

Reviewed by:

Ch. M. O'Brien
Counsel for Respondent

Accepted by FINRA:

2/4/09
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

Exhibit A

The staff reviewed the following samples during the TMMS examination:

<u>Sample Size</u>	<u>Review Area</u>	<u>Sample Source</u>
74	Customer sales orders, for compliance with SEC Rules 200(g) and/or 203(b),	from trade dates August 1-15, 2006
306	Customer sales, for compliance with NASD Rule 6130,	from trade dates August 1-15, 2006
N/A	data published on the firm's quarterly order routing report, for compliance with SEC Rule 606,	from the report including July through August, 2006
10	persons engaged in the firm's trading and market making activities, for compliance with NASD Registration rules,	from trading staff in August 2006
153	order/trade records prepared and maintained in connection with the above samples, for general compliance with NASD Rule 3110 and SEC Rules 17a-3 and 17a-4.	from trade dates August 1-15, 2006
650	trades reported to ACT or TRACS in connection with the above samples, for general compliance with NASD Trade Reporting and ACT rules,	from trade dates August 1-15, 2006
23	customer trade confirmations reviewed in connection with the above samples, for compliance with SEC Rule 10b-10,	from trade dates August 1-15, 2006
50	orders in NNM or SC securities submitted to OATS, for compliance with NASD Rule 6955,	from trade dates August 1-15, 2006
N/A	the firm's establishment and implementation of "regular & rigorous" reviews of the execution quality of orders sent to other market centers and internalized, for compliance with NASD Rules 2320 and 3010,	Based on WSPs in effect during August 2006.
N/A	the firm's establishment and implementation of a supervisory system and written supervisory procedures, for compliance with NASD Rule 3010,	Based on WSPs in effect during August 2006.
N/A	the firm's establishment and implementation of a supervisory system and written supervisory procedures, for compliance with NASD Rule 3010,	Based on WSPs in effect during August 2006.