

FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20070076245-01

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REGISTRATION & DISCLOSURE

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

RE: E*Trade Securities, LLC, Respondent
Broker-Dealer
CRD No. 29106

Pursuant to NASD Rule 9216 of FINRA Code of Procedure, E*Trade Securities, LLC (the "firm" or "E*Trade Securities") 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, formerly known as NASD, since February 19, 1992, and its registration remains in effect.

RELEVANT PRIOR DISCIPLINARY HISTORY

On December 23, 2003, an AWC became final in which the firm was censured and fined \$11,000 for violations of NASD Rules 2110, 3010 and 6955.

SUMMARY

In connection with 20070076245, the staff of FINRA's Department of Market Regulation (the "staff") conducted a review of the firm's compliance with the rules applicable to the Order Audit Trail System ("OATS") during the period September 3, 2002 through December 31, 2007 (the "review period").

FACTS AND VIOLATIVE CONDUCT

1. During the review period, E*Trade Securities received the majority of its customers' orders through its website, which were automatically and simultaneously entered into its affiliate clearing firm's (the "affiliate") order routing system. The affiliate reported order information to OATS. For orders received during normal market hours, there were no time discrepancies between the time the firm received the order and when the affiliate received the order. Orders that were received after the market close, and not marked for after-hours trading were placed in a queue that was released at 6 am Eastern Time prior to the opening market of the next business day, which was the order receipt time that was reported to OATS. Unless otherwise directed by its customers, the firm, through its affiliate's system, directed its customers' orders to various market centers, other than to its affiliate, for further handling and/or execution.
2. In light of the firm's business model described in paragraph one, the firm was required, during the review period, to submit to OATS under its MPID of TIED a "New Order Report" reporting the receipt of the order from the customer and a "Route Report" reporting the route of the order to the recipient market center.¹
3. The firm failed to submit any "New Order" or "Route Reports" to OATS during the review period under its MPID of TIED. Instead, its affiliate filed a "New Order Report" which identified E*Trade Securities as the routing firm. The order receipt times captured by the firm and its affiliate for orders received during normal market hours were, as stated above, virtually simultaneous. The total number of affected orders is unknown.
4. The conduct described in paragraphs one through three constitutes separate and distinct violations of NASD Marketplace Rule 6955(a), and a violation of NASD Conduct Rule 2110.
5. 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 OATS. 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

¹ Coinciding with corporate structural changes, the firm assumed ownership of the MPID "TIED" from its affiliate on September 3, 2002, but relied upon the affiliate to fulfill E*Trade Securities' OATS reporting obligations.

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 Conduct Rules 2110 and 3010.

6. The conduct described in paragraph five constitutes a violation of NASD Conduct Rules 2110 and 3010.

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

A censure and a fine of \$500,000 (comprised of \$200,000 for the OATS violations and \$300,000 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, 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.

Within 90 business days of acceptance of this AWC by the NAC, a registered principal of the Respondent shall submit a written certification to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, representing that the Respondent is in compliance with its OATS reporting obligations.

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.

4/11/08
Date

E*Trade Securities, LLC

By: James E. Ballowe Jr.

Name: James E. Ballowe, Jr.

Title: General Counsel
E*Trade Brokerage Holdings, Inc.

Reviewed by:

[Signature]
Counsel for Respondent

Accepted by FINRA:

4/23/08
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