

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20070094711-02**

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

RE: E*Trade Securities LLC (CRD No. 29106), Respondent

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, the 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 Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. E*Trade Securities LLC ("E*Trade Securities" or the "Firm"), a member 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

E*Trade Securities became a FINRA member firm on February 19, 1992. The Firm provides on-line securities investing and trading services for retail customers.

RELEVANT DISCIPLINARY HISTORY

E*Trade Securities has no relevant disciplinary history.

OVERVIEW

This matter involves supervisory violations at E*Trade Securities from January to approximately June 2006, surrounding the Firm's failure to adequately prepare for and respond to its January 2006 acquisition of approximately 557,000 customer accounts from Harrisdirect LLC (the "January 2006 conversion").

FACTS AND VIOLATIVE CONDUCT

NASD Rule 3010(a) requires that members "establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable NASD Rules."

NASD Rule 3010(b) requires firms to "establish, maintain, and enforce written procedures to supervise the types of business in which it engages and . . . that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable Rules of NASD."

As described below, E*Trade Securities violated NASD Rules 3010(a) and (b) and Rule 2110, in that (1) from January to approximately June 2006, certain customers were unable to log into their accounts and/or contact customer service; and (2) on January 12, 2006, customers were unable to enter orders online via the Firm's website for seven minutes and unable to timely enter orders online for 27 minutes.

1. Customer Inability to Log into Accounts Online and/or Contact Customer Service

Prior to the January 2006 conversion, E*Trade Securities identified approximately 88,000 converting customers whose log-in information was likely to be incompatible with the Firm's systems. E*Trade Securities communicated with those customers, and provided them with temporary log-in IDs and instructions. However, an additional 16% of converting customers (approximately 80,000), who were not initially identified by the Firm, also had log-in information that was incompatible with the Firm's systems, bringing the total number of customers with incompatible log-in information to approximately 30% of total converting accounts.

As a result, starting on January 11, 2006, the first trade date at E*Trade Securities for converting customers, approximately 80,000 customers were unable to access their accounts via the website. This log-in problem led to higher than expected call volumes which E*Trade Securities was not equipped to handle. Although E*Trade Securities had increased call center staffing in connection with the conversion, the Firm still did not have sufficient staff on hand to respond to the elevated call volumes, resulting in call wait times of up to one hour and many dropped calls. This problem was not completely resolved for several months, and converting customers continued to inquire about problems with their passwords and access to their accounts. In addition, the Firm had over 17,000 unanswered emails from converting customers regarding conversion issues. By no later than June 2006, the Firm's customer call volume, average hold times, and number of customer complaints returned to normal levels.

E*Trade Securities violated NASD Rules 3010(a) and (b) and 2110, in that from January to approximately June 2006, the Firm failed to establish a system reasonably designed to supervise, and written procedures reasonably designed to ensure customers ability to log into their accounts and contact customer service for assistance.

2. Customer Inability to Enter Orders

On January 12, 2006, E*Trade Securities disclosed to FINRA that a technological problem had prevented the Firm from transmitting customer orders to various market centers that day. As a result, from 9:40 to 9:47 a.m., E*Trade Securities customers were unable to enter orders online or log on to the Firm's website. In addition, from 9:47 until 10:14 a.m., the Firm's website experienced sporadic slowness and continued delays because requests had accumulated in excess of what the systems were normally able to process.

E*Trade Securities violated NASD Rules 3010(a) and (b) and 2110, in that the Firm failed to establish a system reasonably designed to supervise, and written procedures reasonably designed to ensure customers ability to enter orders online on January 12, 2006 for seven minutes and to timely enter orders online for 27 minutes.

B. E*Trade Securities also consents to the imposition of the following sanctions:

- A Censure; and
- A fine in the amount of \$100,000.

E*Trade Securities agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. E*Trade Securities has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

E*Trade Securities specifically and voluntarily waives any right to claim that it 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

E*Trade Securities specifically and voluntarily waives the following rights granted under

FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against it;
- B. To be notified of the 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, E*Trade Securities 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.

E*Trade Securities further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA 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

E*Trade Securities 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 FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against E*Trade Securities; and
- C. If accepted:

1. this AWC will become part of E*Trade Securities' permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against E*Trade Securities;
2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about E*Trade Securities' disciplinary record;
3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
4. E*Trade Securities 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. E*Trade Securities 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 right of E*Trade Securities to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

D. E*Trade Securities may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. E*Trade Securities 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 undersigned, on behalf of the E*Trade Securities, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that E*Trade Securities 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 E*Trade Securities to submit it.

5/8/2010
Date (mm/dd/yyyy)

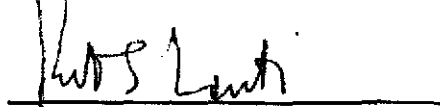
E*Trade Securities LLC

By: James E. Balloue Jr.

Print Name: James E. Balloue Jr.

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

Reviewed by:



Pat S. Conti
Schulte Roth & Zabel LLP
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Accepted by FINRA:

5/10/10
Date

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



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