

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2007009764901**

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

RE: ~~Chase Investment Services Corp., Respondent~~
~~CRD No. 25574~~

Pursuant to NASD Rule 9216 of FINRA's Code of Procedure, Chase Investment Services Corp. ("Chase" or 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 me alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Chase 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

Chase Investment Services Corp. has been a FINRA member and a registered broker dealer with the Securities and Exchange Commission since 1990. Chase, a Delaware corporation which maintains its principal place of business in Chicago, Illinois, has over 13,000 registered representatives and over 3,000 branch offices throughout the United States.

RELEVANT PRIOR DISCIPLINARY HISTORY

In a November 2004 Letter of Acceptance, Waiver and Consent, (AWC #C10040111), FINRA (then known as NASD) found that Chase failed to file 230 Uniform Termination Notices for Securities Industry Registration ("Form U5 filings") in a timely manner during the period January 2002 through March 2004, as required by Article V, Section 3(a) of the NASD By-Laws (the "Article V Reporting Obligations"). FINRA also found that Chase's supervisory system and procedures were not reasonably designed to achieve compliance with the firm's Article V Reporting Obligations, as required by NASD

Conduct Rules 2110 and 3010. As a result, Chase was censured, fined \$250,000, and required to comply with certain undertakings.

OVERVIEW

During the period January 2004 through April 2008 (the “relevant period”), 126 registered representatives at Chase were terminated following allegations of theft, fraud, or violations of investment-related rules. In its required regulatory filings for over 90 percent of those terminations, Chase inaccurately answered “no” to a question that inquired about such allegations. Specifically, Chase failed to accurately complete the Termination Disclosure question in Section 7F on Form U5 filings (“Question 7F”), as required by NASD Conduct Rule 2110 and Membership and Registration IM-1000-1. This failure hindered the investing public’s ability to access pertinent background information for certain registered representatives through FINRA’s public disclosure system, BrokerCheck.

Also, during the relevant period, Chase failed to establish and maintain a supervisory system and written procedures that were reasonably designed to achieve compliance with its obligation to complete and submit accurate Form U5 filings, as required by NASD Conduct Rules 3010 and 2110.

FACTS AND VIOLATIVE CONDUCT

CHASE SUBMITTED INACCURATE FORM U5 FILINGS

Chase’s Form U5 Disclosure Obligation

Article V, Section 3(a) of FINRA’s By-Laws requires all member firms to notify FINRA when a registered representative’s association with the firm is terminated by filing a Form U5.¹ Pursuant to NASD Membership and Registration IM-1000-1, member firms are required to submit accurate Form U5 filings.²

Chase Completed and Submitted Inaccurate Form U5 Filings

During the relevant period, 126 registered representatives at Chase were terminated or voluntarily resigned following allegations of theft or other violative conduct. For 118 of

¹ The same provision of the NASD By-Laws was applicable prior to July 30, 2007.

² Membership and Registration IM-1000-1 provides:

The filing with the Association of information with respect to membership or registration as a Registered Representative which is incomplete or inaccurate so as to be misleading, or which could in any way tend to mislead, or the failure to correct such filing after notice thereof, may be deemed to be conduct inconsistent with just and equitable principles of trade and when discovered may be sufficient cause for appropriate disciplinary action.

those representatives, or over 90 percent of them, Chase submitted an inaccurate Form U5 filing. In each instance, Chase was required to respond “yes” or “no” to the following subparts of Question 7F:

Did the individual voluntarily *resign* from your firm, or was the individual discharged or permitted to *resign* from your firm, after allegations were made of:

1. violating *investment-related* statutes, regulations, rules or industry standards of conduct?
2. fraud or the wrongful taking of property?
3. failure to supervise in connection with *investment-related* statutes, regulations, rules or industry standards of conduct? (emphasis in original.)

Chase inaccurately answered “no” on the Form U5 for each of the 118 terminated registered representatives. If Chase had correctly answered “yes” to this question, Chase would have been further required to complete a separate Termination Disclosure Reporting Page (“DRP”), providing information regarding the registered representative’s termination, as well as an explanation regarding the nature of the allegations of improper or wrongful conduct. Chase failed to do this.

FINRA makes the information provided on the DRP, as well as other parts of the Form U5, available to the investing public through its public disclosure system, BrokerCheck. BrokerCheck is an online tool through which the investing public can check the professional and disciplinary backgrounds of current and former member firms and representatives. Chase’s failure to complete a DRP deprived the investing public access to information regarding the terminations of certain registered representatives.³

Although Chase disclosed in Section 3 of the Form U5 an explanation of the underlying conduct that resulted in these representatives being terminated following allegations of theft or other violative conduct, Chase had an independent obligation to accurately answer Question 7F, as noted above. Moreover, FINRA notified member firms that certain information from the Form U5, such as responses to Question 7F, is made publicly available but information from Section 3 is not.

CHASE FAILED TO ESTABLISH AND MAINTAIN AN ADEQUATE SUPERVISORY SYSTEM AND WRITTEN PROCEDURES

As early as 2002, regulatory notices indicated that information obtained from a member firm’s responses to certain questions in Section 7 of the Form U5 would be disclosed to the public, whereas information from Section 3 of the Form U5 would not.⁴ The

³ Prior to March 19, 2007, information provided on the DRP regarding a terminated registered representative was made available to the public once that representative registered with another member firm. After that date, the information was made available to the public regardless of whether the representative registered with another member firm. See Notice to Members (“NtM”) 07-10.

⁴ NtM 02-74 at p. 802 (“NASD also does not release the date and reason for termination as reported on Form U-5.”). Information provided in response to disclosure questions on the Uniform Registration Forms (e.g., Section 7 on the

following year, in regulatory releases issued by the SEC and FINRA in 2003, it was announced that Question 7F and the corresponding DRP were added to the Form U5.⁵ This addition was made to clarify for both FINRA and terminated registered representatives, the specific basis for and circumstances surrounding the representatives' terminations.⁶ Question 7F and the corresponding DRP were designed to elicit the same information as Question 14J on the Form U4 – information which was made available to the public.⁷ Additional regulatory notices issued in 2007 made clear that certain information from the Form U5, including information obtained in response to Question 7F, would be made available to the public via BrokerCheck, but that information disclosed in Section 3 would not be disclosed.⁸

Notwithstanding this notice, Chase submitted inaccurate responses to Question 7F and further failed to implement appropriate procedures to ensure that it provided accurate responses to Question 7F. Chase's failure to implement a supervisory system and written procedures that were reasonably designed to achieve compliance with its obligation to complete and submit accurate Form U5 filings to FINRA violated its obligation to establish and maintain an adequate supervisory system.

Based upon the foregoing, Chase violated NASD Conduct Rule 2110 and NASD Membership and Registration IM-1000-1, as well as NASD Conduct Rules 3010 and 2110.

OTHER FACTORS

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

A censure; and

A fine in the amount of \$150,000, which shall be paid within 10 days of notice of acceptance of this AWC.

Form U5) is disclosed to the public via the "Public Disclosure Program" (now known as BrokerCheck). *See Id.* at p. 801 & n.10.

⁵ *See* SEC Release No. 34-48161 (July 10, 2003); NtM 03-42 (July 2003).

⁶ SEC Release No. 34-48161 (July 10, 2003); *see also* SEC Release No. 34-47936 (May 28, 2003).

⁷ SEC Release No. 34-48161 (July 10, 2003); NtM 03-42 (July 2003). *See also* SEC Release 34-42402 (Feb. 7, 2000) (information reported on the Form U5 is disclosed to the public if it is information that should be reported on the Form U4); NASD Public Disclosure Program: An Information Service for Investors (eff. Feb. 2002 – March 2007) (information provided in response to Question 14J on the Form U4 is disclosed to the public).

⁸ SEC Release No. 34-55127 (Jan. 18, 2007) (the release specifically notes that information provided in response to Question 7F would be disclosed via BrokerCheck); NtM 07-10 (March 2007); *see also* NASD IM-8310-2 (March 2007).

Chase agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Chase has submitted an Election of Payment form showing the method by which the Firm proposes to pay the fine imposed.

Chase 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

Chase 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 it;
- 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, Chase 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.

Chase 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

Chase 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 me; 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 it;
 - 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 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. The 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 my right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

Chase 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 the Firm 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 Chase to submit it.

Date

12/11/08

(X)

ALJ
Chase Investment Services Corp.,
Respondent

By: Alan J. Chabot, SUP

[name and title]

Head of Retail Investments

Reviewed by:

Neal, Gerber & Eisenberg LLP

Phillip L. Stern

Mr. Phillip L. Stern
Counsel for Respondent
Neal, Gerber & Eisenberg LLP
2 North LaSalle Street
Chicago, Illinois 60602-3801
(312) 269-8488

Accepted by FINRA:

2/4/09
Date

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



Katherine A. Malia
Vice President and Chief Counsel
FINRA – Department of Enforcement
1801 K Street, N.W., Suite 800
Washington, D.C. 20006