

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2008013504201**

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

RE: BNP Paribas Securities Corp., Respondent
Member Firm
CRD No. 15794

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

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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

BNP Paribas Securities Corp. ("BNPP" or the "Firm") has been a registered broker-dealer and a member of FINRA (f/k/a, National Association of Securities Dealers or NASD) since 1984. BNPP is an investment bank servicing institutional clients, is headquartered in New York, New York, and has approximately four active branches and 980 registered representatives.

RELEVANT DISCIPLINARY HISTORY

BNPP has no relevant disciplinary history.

OVERVIEW

During 2007, BNPP failed to establish and maintain adequate systems and procedures in order to manage certain risks at its listed options trading and stock loan desks. In particular, it had

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inadequate systems and procedures to review and assess the risk of valuations of certain manually marked positions in trading accounts of the Listed Option Desk (LO Desk), and it failed to properly review and assess the risk associated with a trade made by the Stock Loan and Borrow Desk (SLAB).

Because of these supervisory failures, the Firm was unaware of losses incurred over a period of approximately 11 weeks at the LO Desk in excess of \$18 million, which were discovered by the Firm in November 2007 or a single SLAB trade that lost approximately €3.4 million in July 2008. The failures relating to the LO Desk also caused certain of the Firm's books and records to be inaccurate prior to November 2007.

In addition, in December 2007, when the Firm filed the form U5 for the trader responsible for the inaccurate marks on the LO Desk, it incorrectly indicated the trader's termination was "voluntary" when in fact the trader was "permitted to resign." The Firm further incorrectly indicated, in response to a disclosure question, that the trader was not under internal review at the time of his termination when, in fact, he had been under such review.

By reason of the foregoing, the Firm violated NASD Rules 3010, 3110, 2110, SEC Exchange Act Rule 17a-3, and IM-1000-1.

FACTS AND VIOLATIVE CONDUCT

LO Desk

The LO Desk was one of approximately five trading desks that were part of the equity and derivatives unit at the Firm. Trading on the desk was primarily flow trading, i.e., trading on behalf of clients. The primary function of the Firm's traders was to facilitate client trades by acting as agent and finding another party to take the other side of the desired trade. Traders were also permitted to commit capital on behalf of the Firm and/or its affiliates.

At BNPP, the current value of option positions was continuously marked-to-model throughout the trading day by the Firm's automated valuation model. In some instances, the characteristics of the underlying stocks prevented the model from generating an accurate valuation or "good fit" on options on those stocks. In response to this problem, the Firm permitted such options to be valued or fit manually by a "fit-team" or, on a case-by-case basis, by individual traders. In the "manual" fit process, the parameters of the model are changed in order to change the valuation.

When the Firm granted traders permission to mark positions manually, however, it did not have an adequate system or procedure in place to identify or assess the risk of loss to the Firm that arose from such valuations. Specifically, there was no review of these valuations either by the supervisor of the LO Desk or the Market Liquidity and Risk (MLR) department of the Firm. In addition, although a procedure at the Firm called for a report identifying manually-fitted positions to be generated and sent to MLR, that report was not produced. Accordingly, during the relevant period, there was no independent valuation or verification by the Firm of the valuations, or the risks associated with these valuations.

The shortcomings of the Firm's systems and procedures became apparent when it granted one trader, A.P., permission to value manually the options positions he traded. A.P., who became associated with the Firm in mid-April 2007 after working as a trader at another member firm since 2002, was hired to trade options in health care, biotech and pharmaceuticals. After joining the Firm, A.P. noticed limitations in the model's ability to accurately value positions in some options under certain circumstances. Throughout the summer of 2007, he told other persons at the Firm that the model mismarked certain of his positions, requiring those positions to be adjusted by the fitting team with input from the trading desk. On August 30, 2007, A.P. received permission from his supervisor to manually fit certain of his positions, primarily in underlying biotech stocks. Prior to this date, he had not been manually fitting any positions.

Between August 30 and November 20 2007, AP manually fit certain of the positions he traded, with inadequate oversight by the Firm. When one of the other traders at the LO Desk was promoted to become the supervisor of the desk in November 2007, he undertook a review of certain of the marks maintained by the LO Desk and discovered positions, mostly concentrated in A.P.'s book, that had been marked away from the mid-market price, the Firm's benchmark for a good fit. Eventually, it was discovered that options positions in approximately 79 stocks (primarily biotechs and financials) were being manually fit unbeknownst to the MLR group. As a result of the substantial discrepancy between approximately 26 of the manual marks and what the Firm thought the appropriate valuations should be, the Firm revised the affected books, causing the value of certain positions to be revised downwards in excess of \$18 million.

Following discovery of these discrepancies, the Firm determined to separate A.P. from the Firm. The Firm signed a separation agreement with A.P. on November 26, 2007 indicating that "[i]n exchange for your execution of this agreement, the Company will allow you to resign in lieu of termination for cause." Among other things, the Firm required A.P. to return his signing bonus and forfeit a year-end guaranteed bonus.

BNPP filed a form U5 for A.P. on or about December 3, 2007 that was inaccurate in two respects: (1) in response to Question 3, it stated the reason for his termination to be "voluntary" when in fact A.P. was permitted to resign in lieu of being terminated; and, (2) in response to Question 7B, it checked "No" when asked whether A.P. was at the time of termination under internal review for "fraud or wrongful taking of property, or violating investment-related statutes, regulations, rules or industry standards of conduct."

The Firm's investigation of the circumstances surrounding the mismarking continued after December 2007. In May 2008, it filed an amended U5 that corrected the inaccuracies described above. Prior to its filing of the amended U5, the Firm self-reported the incident to FINRA's Department of Enforcement.

SLAB Desk

SLAB financed arbitrage and trading activities of the Firm and its affiliates by reaching out to various institutional lenders, e.g., trust companies, custodial banks, and mutual funds, to find shares to borrow and cover short positions. It also provided "matched book" services for other broker-dealers by borrowing shares from an institutional lender and lending those shares to

another broker-dealer that did not have access to the needed shares. Occasionally, SLAB would take advantage of arbitrage opportunities associated with corporate actions. It had done this on three occasions in the 2005-2008 time period. An account, referred to as the SLAB corporate action(s) account, and approved by management, was created to hold shares obtained as a result of the corporate actions.

In February 2007, the NYSE made a tender offer for shares of Euronext as part of a merger. At the time of the tender offer, BNPP had borrowed shares of Euronext from a custodial bank and had loaned some or all of those shares to a BNPP affiliate. SLAB and the custodial bank entered into a verbal agreement to take advantage of a presumed arbitrage opportunity in connection with the pending corporate action. Ultimately, due to an over-subscription of the cash option in the tender offer, the presumed arbitrage opportunity evaporated and the Firm lost approximately €3.4 million.

The Firm failed to have any system or procedure for tracking and assessing the risk of loss to the Firm from SLAB arbitrage trades, including the Euronext trade. As a result, the Firm did not anticipate the loss occasioned by the trade, which it realized in or about July 2008.

VIOLATIONS

Inadequate Supervisory Systems and Procedures: NASD Rules 3010 and 2110

NASD Rule 3010 requires each member firm to establish and maintain a system, including written procedures, to supervise the activities of its employees that is reasonably designed to achieve compliance with the federal securities laws and NASD rules.

Among other things, NASD Rule 3010 requires Firms to implement reasonable risk management supervisory systems, see, e.g., NASD Notice to members 99-92 (November 1999). Here, BNPP was required (i) to exercise reasonable care to price financial instruments correctly, especially complex or difficult-to-value products; (ii) to supervise individuals, such as proprietary traders, who had a potential incentive to mismark; and, (iii) to implement a system or procedure for independent price verification as part of its overall risk management system.

As discussed above, BNPP failed to have an adequate system in place to independently verify the marks made by individual traders on the LO Desk and other desks who had been authorized to manually mark their books. Accordingly, it was unaware of losses in excess of \$18 million on the LO Desk incurred over a period of approximately 11 weeks due to inaccurate marks.

In addition, the Firm further failed to limit, monitor or track risk associated with arbitrage trades made by the SLAB desk. Accordingly, it did not anticipate a loss of approximately €3.4 million occasioned by a single SLAB arbitrage trade.

By reason of the foregoing, BNPP violated NASD Rules 3010 and 2110.

Inaccurate Books and Records: NASD Rules 3110, 2110
and SEC Exchange Act Rule 17a-3

Rule 17a-3 of the Securities Exchange Act of 1934 requires every broker or dealer registered under Section 15 of the Act to make and keep current books and records related to its business, including but not limited to ledgers or other records reflecting all assets and liabilities, income and expense and capital accounts.

NASD Rule 3110 requires each member to make and preserve books, accounts, records, memoranda, and correspondence in conformity with, among other things, SEC Exchange Act Rule 17a-3.

From August 30, 2007 to November 20, 2007, BNPP created records reflecting the inaccurate values of certain positions in the LO Desk's trading accounts.

By reason of the foregoing, BNPP violated NASD Rules 3110 and 2110 and SEC Exchange Act Rule 17a-3.

Inaccurate Form U5 Filing - NASD Rule 2110 and IM-1000-1

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. NASD IM-1000-1 provides that the filing of incomplete or inaccurate information may be deemed to be conduct inconsistent with just and equitable principles of trade.

As discussed above, BNPP filed a form U5 for A.P. on or about December 3, 2007 that incorrectly described his termination as "voluntary" termination when in fact he was "permitted to resign." The Firm further incorrectly indicated, in response to a disclosure question, that the trader was not under internal review at the time of his termination when, in fact, he had been under such review.

By reason of the foregoing, BNPP violated NASD Rule 2110 and IM-1000-1.

OTHER FACTORS

In determining the appropriate sanctions in this matter, FINRA has taken into account each of the following factors:

BNPP self-reported the inaccurate U5 filing to the staff of the Department of Enforcement in May 2008 prior to its filing an amended U5 for A.P.

BNPP provided substantial assistance to the staff in investigating the circumstances that gave rise to the mismarking and the filing of the inaccurate U5, including identifying and providing witnesses on-site for interviews and by creating and providing to the Staff a compendium of highly-relevant documents.

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

1. A censure; and,
2. A fine in the amount of \$650,000.

Respondent agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent 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

Respondent 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, Respondent 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.

Respondent 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

Respondent 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 Respondent; and
- C. If accepted:
 - 1. this AWC will become part of Respondent'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 my 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. 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. 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 Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. Respondent may attach a Corrective Action Statement to this AWC that is a

statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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.

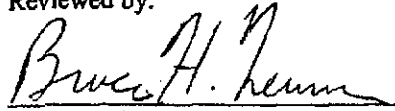
The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Respondent has agreed to its provisions voluntarily; and that no offer, 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 the Firm to submit it.

09/28/2010
Date (mm/dd/yyyy)

BNP Paribas Securities Corp., Respondent

By: Robert W. Hawley 09/28/2010
Name:
Title: **ROBERT W. HAWLEY**
President of BNP Paribas Securities Corp

Reviewed by:



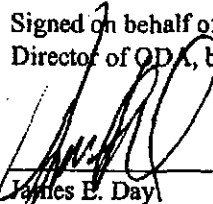
Bruce H. Newman
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Accepted by FINRA:

1/129/10

Date

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


James E. Day

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