

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2008013863701**

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

RE: Jefferies & Company, Inc., Respondent
Member Firm
BD No. 2347

Anthony J. Russo, Respondent
Registered Representative
CRD No. 2276753

Robert A. D'Addario, Respondent
Registered Representative
CRD No. 2622932

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

I.

ACCEPTANCE AND CONSENT

A. Respondents hereby accept and consent, 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

Jefferies & Company, Inc. ("Jefferies" or the "Firm") is a full-service broker-dealer and investment bank that offers investment banking, sales and trading, research, asset and wealth management, execution and other securities services to companies and investors. It has been a FINRA member since 1963, is headquartered in New York, New York, and employs approximately 1,412 registered persons, who operate from 29 branch offices.

Anthony J. Russo ("Russo") age 44, has held a FINRA registration since 1993. He was employed at Jefferies from February 2003 to April 2008 and is currently registered with another member firm. While at Jefferies, Russo maintained the following registrations: General Securities Representative (Series 7), State Agent (Series 63) and Equity Trader (Series 55).

000055105 2011

Robert A. D'Addario ("D'Addario"), age 34, has held a FINRA registration since 1998. He was employed at Jefferies from May 2004 to January 2009 and is currently registered with another member firm. While at Jefferies, D'Addario maintained the following registrations: General Securities Representative (Series 7), State Agent (Series 63), and Equity Trader (Series 55).

RELEVANT PRIOR DISCIPLINARY HISTORY

On or about October 6, 2005, Jefferies submitted a Letter of Acceptance, Waiver and Consent in Matter No. 200400001702, in which the firm was censured and fined \$125,000 for supervisory and record-keeping violations relating to, among other things, its failure to retain memoranda of brokerage orders.

Neither Russo nor D'Addario has any relevant disciplinary history.

OVERVIEW

From August 1, 2007 to March 31, 2008 (the "relevant period"), Russo, D'Addario and a third Jefferies registered representative ("Rep A"), comprised the Corporate Cash Management (CCM) group at Jefferies, providing short term investment advice and services for Jefferies corporate clients. Russo and Rep A were principally responsible for communicating with customers and providing investment advice and recommendations. D'Addario was principally responsible for trading. They used the same rep code and shared commissions. The CCM group served approximately 40 corporate clients by managing their cash and short-term assets.

A significant number of the CCM group clients invested in auction rate securities (ARS), and some of those invested most if not all of their assets in ARS. Overall, these clients held approximately \$650 million of ARS as of February 28, 2008. Generally, the clients that invested in ARS fell into two groups: the first were relatively autonomous in making investment decisions for their accounts. The second group consisted of eight clients (the "Discretionary Clients") that had orally instructed the CCM group to exercise its discretion to select specific ARS to buy and sell for their accounts.

In investing in ARS for their clients, Jefferies committed violations of NASD, MSRB, and SEC Rules; Russo and D'Addario committed violations of NASD and MSRB Rules:

1. Respondents received additional compensation in 32 transactions when they purchased new issue ARS for their Discretionary Clients, but they failed to disclose to those clients that they received such additional compensation or that they could have purchased other comparable or similar ARS with higher yields for these customers at the same time that did not pay them such compensation. In 32 additional transactions, Respondents purchased ARS for their Discretionary Clients that were held by other CCM group clients, but did not disclose to their clients the conflict associated with their acting as agent for both the buying and selling customer in connection with the purchases from existing customer accounts or that they could have purchased comparable or similar ARS with higher yields at the time they effected such trades;

2. Jefferies exercised discretion to purchase or sell ARS for the Discretionary Clients without written authority;
3. Jefferies failed to deliver official statements in connection with 20 purchases of municipal new issue ARS for some of the Discretionary Clients;
4. Jefferies used ARS advertising and marketing materials that were misleading in that they represented ARS as a "cash equivalent investment" or "cash investment" compared them to money market instruments and described them as having maturity dates that corresponded to the next auction date, thereby implying that they were short term investments when in fact they could and did become long term investments;
5. Jefferies sold restricted (Rule 144A) ARS to a customer that was not qualified to buy them;
6. Jefferies failed to implement a contractually-agreed upon information barrier thereby allowing a Jefferies employee who sat on the board for one of the Discretionary Clients to share information he gleaned from Board meetings with others at Jefferies;
7. Jefferies had deficient or missing order tickets for approximately 400 ARS trades, over half of the trades executed during the relevant period; and,
8. Jefferies failed to establish and maintain an adequate supervisory system, including written supervisory procedures, relating to the operation of the CCM group and its preparation and use of advertising and sales material for ARS.

By reason of the foregoing, D'Addario and Russo violated NASD Rule 2110 and MSRB Rule G-17; and Jefferies violated NASD Rule 2110, including by reason of violating Sections 5 and 17(a)(2) of the Securities Act of 1933; NASD Rules 2510, 2210, 2211, 3110, and 3010; SEC Exchange Act Rule 17a-3; and, MSRB Rules G-32, 21, 8, 27, and 17.

FACTS AND VIOLATIVE CONDUCT

Background: Auction Rate Securities

ARS are long-term securities with interest rates or dividend yields that are reset periodically through an auction process.¹ Historically, ARS were held mainly by institutional investors, but by 2007, a retail market developed for these securities, with a typical minimum investment of \$25,000. Although the maturity periods of ARS range from five years to 30 years or more for debt obligations and no stated maturity for closed-end fund preferred shares, auctions provide the primary source of liquidity for ARS investors and typically occur every 7, 14, 28 or 35 days.

ARS can become illiquid when an auction fails. ARS auctions fail when the supply of ARS being auctioned exceeds the demand for the securities in that auction. When an ARS auction fails, investors receive a penalty interest rate or dividend until the next auction but are unable to sell their securities at that time. As a result, ARS may not be appropriate for investors who have a short-term need for the funds they are investing.

Securities firms play different roles in the ARS market. An Underwriter brings the ARS to market as an intermediary for the issuer of the security. An Auction Agent, which can be a bank, conducts the ARS auction by collecting orders from broker-dealers, determines the "clearing rate," the highest rate accepted in the auction that becomes the interest or dividend rate that applies until the next auction, and calculates the allocation of the securities among Auction Dealers. An Auction Dealer or Remarketing Agent is a broker-dealer that solicits bids for the securities from their customers, submits them to the Auction Agent and usually receives a fee paid by the issuer. Firms acting in these capacities are sometimes known as "upstream" firms. In the past, certain upstream firms placed bids for ARS for their proprietary accounts in order to, among other things, support the auctions and prevent them from failing.

In contrast to upstream firms, firms sometimes known as "downstream" firms do not act as agents for issuers in any capacity. Instead, downstream firms act in the traditional broker role as agents for their customers and place bids with Auction Dealers and Remarketing Agents on the customers' behalf to purchase and sell ARS. Downstream firms are paid fees by Auction Dealers and Remarketing Agents (which may vary by dealer and type of security) for effecting trades in ARS held in dealers' inventories.

Beginning in May 2006, the Securities and Exchange Commission brought a series of enforcement actions against underwriters, auction dealers and auction agents in the ARS market.² During the summer of 2007, ARS began to fail, and by February 2008, ARS

¹ The primary types of ARS are municipal bonds, student loan-backed auction rate certificates issued by trusts that hold student loans, and preferred shares issued by closed-end funds and collateralized by the assets in the funds.

² See Bear Stearns & Co., Inc.; Citigroup Global Markets, Inc.; Goldman Sachs & Co.; J.P. Morgan Securities, Inc.; Lehman Brothers Inc.; Merrill Lynch Pierce, Fenner & Smith Inc.; Morgan Stanley & Co. Inc. and Morgan Stanley DW Inc.; RBC Dain Rauscher Inc.; Banc of America Securities LLC; A.G. Edwards & Sons, Inc.; Morgan Keegan & Co., Inc.; Piper Jaffray & Co.; Suntrust Capital Markets Inc.; and Wachovia Capital Markets, LLC (Securities Act of 1933, Release No. 53888, May 31, 2006); Deutsche Bank Trust Company Americas, the Bank of New York, and Wilmington Trust Co. (Securities Act of 1933, Release No. 8767, January 9, 2007); Citigroup Global Markets, Inc., successor by merger to Legg Mason Wood Walker Inc. (Securities Exchange Act of 1934, Release

auctions failed on a widespread basis, causing the ARS markets to "freeze." Many of those failures have continued until the present time, notwithstanding that certain ARS issuers redeemed particular ARS in the period since the widespread failures. Nevertheless, many investors, including those who need access to their funds, continue to be unable to sell their ARS holdings.

JEFFERIES' ARS ACTIVITIES

During the relevant period, Jefferies acted as a "downstream" broker of ARS and sold in excess of one billion dollars (\$1,000,000,000) of student loan, municipal, and preferred ARS to its customers. As of February 28, 2008, shortly after most of the ARS market had become illiquid, approximately \$845 million of ARS was held in accounts at Jefferies, approximately \$659 million of which was held by CCM customers.

Background: The CCM Group

Rep A and Russo, who had been colleagues at another member firm, founded and became co-heads of Jefferies' CCM group in 2003. D'Addario joined in 2004. The group was located in Jefferies' offices in New York, NY. The group provided investment advice, recommendations and brokerage services for corporate clients with short-term investment portfolios.

The group's stated goal was to preserve capital and provide liquidity to its clients. The group sought to obtain business from Jefferies' investment banking and research clients. Rep A and Russo's primary focus was to attract new and service existing clients. They divided clients based on the clients' location. The group also ran the fixed income liaison desk, which bought and sold fixed income securities on behalf of retail clients who were separately serviced by PCS (Private Client Services) brokers. D'Addario's primary focus was trading, including the trading of ARS, although he had customer contact on occasion and both Rep A and Russo also executed trades on the desk. Rep A, Russo and D'Addario shared the same representative number and shared net commissions among themselves, at 52, 42 and 6 percent respectively. During the relevant period, approximately 20 of the group's clients were invested in more than \$650 million of ARS.

The group was shown inventory of ARS by auction dealers, typically on a daily basis. Russo and D'Addario then prepared two daily offering sheets on Jefferies' letterhead – one for taxable ARS and one for tax-exempt ARS. Russo and D'Addario did not include all inventory, but selected what they viewed to be the best ARS available on the market from a number of issuers with different auction reset dates. Accordingly, the offering sheets represented from the group's perspective a subset of attractive, high-quality ARS from the universe of ARS being shown to Jefferies by other broker-dealers.

The group distributed these offering sheets on a daily basis, but not to the Discretionary Clients. Russo, and D'Addario did not contact the Discretionary Clients prior to purchasing or selling particular ARS in their accounts. As previously noted, the Discretionary Clients had granted authority orally but not in writing, to the CCM group to select, buy and sell ARS. D'Addario, acting at Rep A and Russo's direction, used this discretion to purchase or

No. 55712, May 7, 2007); and First Southwest Company (Securities Exchange Act of 1934, Release No. 57889, May 27, 2008).

sell particular ARS without a pre-existing customer order or written approval from the customer.

Jefferies was paid a trailing commission, typically ranging between 5 and 20 basis points, on ARS transactions and, for new issues, received an upfront commission or discount, typically ranging between 50 and 150 basis points. Rep A, Russo and D'Addario received a share of those commissions according to their respective payout.

VIOLATIONS

1) Jefferies, Russo, and D'Addario Made Negligent Omissions of Material Facts to Investors Relating to ARS Violating NASD Rule 2110³ and MSRB Rule G-17⁴

Because Russo and D'Addario exercised discretion in selecting which particular ARS to buy and sell for the Discretionary Clients, Jefferies, Russo, and D'Addario became obligated but failed to disclose to the Discretionary Clients material facts relating to each completed transaction, specifically the additional compensation they earned on purchases of new issue ARS, the dual role they played in effecting transactions between the Discretionary Clients' accounts and other corporate cash management clients, and the existence of ARS that provided higher yields at the time they completed the new issue and inter-client transactions.

New Issue Purchases

On new issues of ARS, the auction dealers often offered a concession typically in the form of a discount to par typically ranging from 50 to 150 basis points. In 32 instances during the relevant period, the group purchased new issues for seven of the Discretionary Clients and received such a concession. In 29 instances, the concession took the form of a discount to par (i.e., Jefferies purchased the new issue at a discount to par and sold it to the Discretionary Clients at par); in three instances, the concession came in the form of a payment from the auction dealer. Russo and D'Addario were aware that they would receive a portion of the concession at the time they made the decision to purchase new-issue ARS. When, they purchased these new issue ARS, Russo and D'Addario could have purchased comparable or similar non-new issue ARS as had been identified on Jefferies' offering sheets that, at the time, would have paid higher yields to these clients.

In effecting these transactions, Russo and D'Addario failed to disclose (i) that they were obtaining additional compensation on these transactions and (ii) that comparable or similar ARS were available that paid a higher rate of interest.

³ NASD Rule 2110 requires members and associated persons to observe high standards of commercial honor and just and equitable principles of trade.

⁴ MSRB Rule G-17 prohibits deceptive or unfair practices in the conduct of municipal securities activities.

Inter-Client Purchases

In 32 transactions involving seven of the Discretionary Clients, the group purchased ARS from existing CCM client accounts in instances when they could have purchased comparable or similar ARS off of the Jefferies' offering sheets that, at the time, would have paid higher yields to these clients.

Russo and D'Addario failed to disclose (i) the conflict associated with their role as agent for both the selling and purchasing customers, including in 21 instances in which the group exercised discretion not only for the buying customer but for the selling customer as well; and, (ii) that comparable or similar ARS were available that paid a higher rate of interest at the time.

By virtue of the foregoing, Russo and D'Addario violated NASD Rule 2110 and MSRB Rule G-17; and Jefferies violated NASD Rule 2110 by reason of violating Section 17(a)(2) of the Securities Act of 1933⁵ and MSRB Rule G-17.

2) Jefferies Exercised Discretion Without Written Authority Violating NASD Rules 2510 and 2110

NASD Rule 2510(b) as well as Jefferies' written supervisory procedures expressly prohibited registered representatives from exercising discretion without prior written authorization from the client and approval from Jefferies.

Nevertheless, with the Firm's knowledge, the CCM group exercised discretion to buy or sell ARS in dozens of transactions involving their Discretionary Clients without having written authorization from these clients or written approval from Jefferies.

By reason of the foregoing, Jefferies violated NASD Rules 2510⁶ and 2110.

3) Jefferies Failed To Deliver Official Statements On Municipal New Issue ARS: MSRB Rules G-32 and G-17

Of the 32 new issue transactions previously described, 20 were new issues of municipal securities. As such, Jefferies was obligated, but failed, to deliver to the Discretionary Clients copies of the official statements in connection with these transactions.

By reason of the foregoing, Jefferies violated MSRB Rules G-32⁷ and G-17.

⁵ Section 17(a)(2) of the Securities Act of 1933 makes it unlawful "for any person in the offer or sale of any securities ...by the use of any means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly- ...to obtain money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading..." A violation of Section 17(a)(2) of the Securities Act of 1933 constitutes a violation of NASD Rule 2110.

⁶ NASD Rule 2510 requires prior written authorization from a customer before a firm or a registered representative may exercise any discretionary power in that customer's account. The rule further requires the firm to approve all such discretionary accounts in writing.

4) Jefferies' Used Misleading Communications With the Public Violating NASD Rules 2210, 2211, and 2110 and MSRB Rules G-21 and G-17

Jefferies used three different pieces of sales material in connection with ARS transactions that violated NASD Advertising Rules (Rule 2210 and 2211) and the MSRB Advertising Rule⁸ by misrepresenting the nature of ARS as follows:

ARS Pitchbook

Jefferies prepared an ARS Pitchbook – a 14-page presentation with at least two versions: an April 16, 2007 version and an earlier undated version. Jefferies used a version of this document to solicit sales of ARS from June 2003 to February 2008.

The undated version of the ARS Pitchbook, used to solicit ARS transactions from a client as late as November 26, 2007, inaccurately stated that "[ARS] are...generally classified as cash equivalent investments for accounting purposes." In fact, as was known to Jefferies at the time, ARS were classified as marketable securities for accounting purposes.

In addition, both versions of the Pitchbook contained incomplete comparisons between ARS and money market instruments. For example, the Pitchbook referred to taxable ARS as a "high quality cash investment that is an excellent cash management vehicle;" and, as having "frequent reset modes providing liquidity." The Pitchbook was distributed no fewer than four times to three CCM clients during the relevant period, as well as to PCS brokers on request.

Monthly Cash Management Statement

Monthly Cash Management Statements (the "Statements") are reports generated by Jefferies using Advent software and sent to CCM clients. They were sent to CCM clients on a monthly basis throughout the relevant period.

The Statements improperly classified ARS maturity dates using the reset date rather than the actual maturity date of the security. As a result, the Statements misrepresented ARS as a short term investment maturing within 90 days or less, when in fact the ARS were a

⁷ MSRB Rule G-32 prohibited broker-dealers from selling municipal securities to a customer unless it delivered to such customer a copy of the official statement by no later than the settlement of the transaction.

⁸ NASD Rule 2210(d)(1)(A) provides that all member communications with the public shall be based on principles of fair dealing and good faith, must be fair and balanced, and must provide a sound basis for evaluating the facts. NASD Rule 2210(d)(1)(B) provides that no member may make any false, exaggerated, unwarranted or misleading statement or claim in any communication with the public. NASD Rule 2210(d)(2)(B) provides that any comparison in advertisements or sales literature between investments must disclose all material differences between them. NASD Rule 2211(d)(1) provides that all institutional sales material and correspondence are subject to the content standards of Rule 2210(d)(1).

MSRB Rule G-21 prohibits the publication or dissemination of any advertisement relating to municipal securities that is materially false or misleading.

long term investment that matured in twenty years or more. More than 200 of these Statements were sent to approximately 40 customers during the relevant period.

Three-Page Proposal Given To Customer P

One of the CCM clients, Customer P, received a three-page proposal during an initial in-person meeting between representatives of Customer P and Jefferies on October 2, 2006.

The proposal contained numerous investment options listed in order of increasing maturity and improperly identified ARS as monthly maturity investments.

By reason of the foregoing, Jefferies violated NASD Rules 2210, 2211, and 2110 and MSRB Rules G-21 and G-17.

5) Jefferies Sold Restricted Securities to a Non-Qualified Customer, Violating NASD Rule 2110 By Reason of Violating Section 5 of the Securities Act of 1933

Section 5 of the Securities Act of 1933 prohibits the sale of unregistered securities that are not otherwise exempt from registration. Rule 144A is a safe harbor that permits unregistered securities to be sold to qualified institutional buyers, or QIBs, provided that certain conditions are met. QIBs are institutional investors with \$100 million or more under management.

In order to rely on the Rule 144A safe harbor, a broker-dealer must have a reasonable belief that the purchaser is a QIB and must also take reasonable steps to ensure that the purchaser is aware that the seller is relying on Rule 144A.

In or about September 2006, Customer P, a privately-held start-up satellite company gave the CCM group \$216 million to invest. This represented all of Customer P's investable assets, a fact known to Jefferies since it had served as Customer P's investment banker in raising the money and also because it had the contractual right, under its investment banking engagement letter, to provide exclusive cash management and other brokerage services to Customer P.

As of August 1, 2007, the value of the Customer P accounts had decreased below \$100 million and thereafter, since no additional money was provided for investment, Customer P no longer qualified as a QIB. However, after August 1, 2007, Jefferies purchased two ARS on Customer P's behalf that were unregistered private issues, referred to in the industry, as Rule 144A paper: one on August 14, 2007 in the amount of \$7.5 million and one on January 29, 2008 in the amount of \$500,000.

Because Jefferies failed to satisfy the conditions of the Rule 144A safe harbor, it sold unregistered securities to Customer P in contravention of Section 5 of the Securities Act of 1933. By virtue of such conduct, Jefferies violated NASD Rule 2110.

6) Jefferies Failed To Implement or Enforce An Agreed-Upon Information Barrier Violating NASD Rule 2110

In September 2006, Jefferies became an equity owner in Customer P and was given representation on Customer P's Board of Directors. From September 2006, Jefferies had an employee sit on Customer P's Board in order to represent its equity interest. From

about July 2007 forward, that employee was a high-ranking executive at Jefferies. By virtue of his presence at Board meetings and deliberations and his interactions with other Board members in his capacity as a Board member, the Jefferies' executive had access to confidential information relating to Customer P.

In an engagement letter dated January 8, 2008, Jefferies agreed to implement an information barrier between the Jefferies' board member and the investment banking team at Jefferies that was separately providing investment banking services to Customer P.

Jefferies failed to implement or enforce the information barrier and Jefferies' representative on the Board was unaware of the barrier. He breached the barrier by communicating with the investment banking team, including in instances where he shared the confidential thoughts and deliberations of the Board.

By reason of the foregoing, Jefferies violated NASD Rule 2110.

7) Jefferies Failed To Create And Maintain Accurate Memoranda Of Customer ARS Orders Violating SEC Rule 17a-3, NASD Rules 3110 and 2110, and MSRB Rules G-8 and G-17

During the relevant period, the CCM group executed approximately 760 ARS trades, including for municipal security ARS. These trades were on behalf of both CCM and PCS clients.

Over half of the trades had deficient or missing order tickets: 46 of the tickets were missing in their entirety; 279 did not contain a time stamp; and, 87 had numerous other deficiencies, including, for example, the failure to indicate whether the trade was executed on principal or agency basis and whether the trade was solicited or unsolicited.

By reason of the foregoing, Jefferies violated SEC Rule 17a-3, and NASD Rules 3110 and 2110, and MSRB Rules G-8 and G-17.⁹

8) Jefferies Failed To Establish and Maintain Adequate Supervisory Procedures Violating NASD Rules 3010 and 2110 and MSRB Rules G-27 and G-17

Jefferies violated NASD Rule 3010 and MSRB Rule G-27¹⁰ by failing to establish and maintain procedures for the CCM group that were reasonably designed to achieve

⁹ SEC Rule 17a-3 of the Securities Exchange Act of 1934 requires that a memorandum of each brokerage order for securities transactions need to be created and maintained. Such memorandum must show the terms and conditions of the order, including the time the order was received and entered.

NASD Rule 3110 requires, among other things, that each member make and preserve books and records as prescribed by SEC Rule 17a-3.

MSRB Rule G-8 requires brokers, dealers and municipal securities dealers to make and keep memoranda of transactions in municipal securities that show, inter alia, the time of receipt and execution of the order.

compliance with the federal securities laws and applicable NASD and MSRB rules. For instance, Jefferies failed to have written supervisory procedures for the CCM group, failed to have procedures in place to ensure adequate disclosure to CCM group customers, and failed to have adequate systems and procedures in place to ensure that written authority was obtained for discretionary clients, that delivery of official statements on new issue municipal ARS was made, that the CCM group's advertising and sales materials be adequately reviewed; that Rule 144A paper only be sold to qualified customers; and, that ARS order tickets were adequately completed.

Accordingly, Jefferies violated NASD Rules 3010 and 2110 and MSRB Rules G-27 and G-17.

OTHER FACTORS

In determining the appropriate sanctions in this matter, FINRA has taken into account the following efforts by Jefferies to provide remediation to customers as a result of their ARS holdings:

In July 2008, Jefferies began remitting all trailing commissions received for frozen ARS held in customer accounts directly to its customers on a go-forward basis. As of October 2010, Jefferies had remitted in excess of \$868,000 in such fees to customers.

In December 2008, Jefferies engaged in a partial voluntary buyback of ARS held in retail accounts, offering to purchase up to \$5,000,000 at par from all but one customer. It spent approximately \$63 million in connection with this buyback.

In addition, Jefferies has agreed to provide additional remediation to certain of its ARS customers as described below.

SANCTIONS

B. Respondents also consent to the imposition of the following sanctions:

1. Jefferies & Co., Inc. consents to the imposition of the following sanctions:
 - a. A censure;
 - b. A fine in the amount of \$1,500,000 (\$650,000 of which pertains to the violations of MSRB Rules G-17, G-32, G-21, G-8, and G-27);
 - c. Payment of approximately \$425,000 in remediation to certain customers

¹⁰ 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.

MSRB Rule G-27 requires each broker, dealer and municipal securities dealer to supervise the conduct of its municipal securities activities to ensure compliance with MSRB rules and the federal securities laws, and requires each firm to establish and maintain a system, including written procedures, to supervise municipal securities activities that is reasonably designed to achieve compliance with the federal securities laws and MSRB rules.

of the CCM group who purchased or held ARS in accounts at Jefferies during the period January 1, 2007 through July 31, 2008, such payment representing all commissions and fees earned by Jefferies on such customers' ARS purchases or holdings during the foregoing period. The customers and payment amounts are identified on a schedule dated October 28, 2010 previously provided by Jefferies to the Department of Enforcement.

- d. Jefferies agrees to provide satisfactory proof of payment, or of reasonable and documented efforts undertaken to effect payment, to FINRA staff no later than thirty (30) days after the issuance of this AWC.

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

Jefferies 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.

2. Anthony J. Russo consents to the imposition of the following sanctions:

- a. A suspension from associating with a member firm in all capacities for five (5) business days; and,
- b. A fine in the amount of \$20,000 (\$10,000 of which pertains to the violation of MSRB Rule G-17).

Russo agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payment is due and payable. He has submitted an Election of Payment form showing the method by which he proposes to pay the fine imposed.

Russo specifically and voluntarily waives any right to claim that he is unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

Russo understands that if he is barred or suspended from associating with any FINRA member, he becomes subject to a statutory disqualification as that term is defined in Section 3(a)(39) of the Securities Exchange Act of 1934, as amended. Accordingly, he may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension. (See FINRA Rules 8310 and 8311.)

3. Robert A. D'Addario consents to the imposition of the following sanctions:

- a. A suspension from associating with a member firm in all capacities for ten (10) business days; and,
- b. A fine in the amount of \$25,000 (\$12,500 of which pertains to the violation of MSRB Rule G-17).

D'Addario agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payment is due and payable. He has submitted an Election of Payment form showing the method by which he proposes to pay the fine imposed.

D'Addario specifically and voluntarily waives any right to claim that he is unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

D'Addario understands that if he is barred or suspended from associating with any FINRA member, he becomes subject to a statutory disqualification as that term is defined in Section 3(a)(39) of the Securities Exchange Act of 1934, as amended. Accordingly, he may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension. (See FINRA Rules 8310 and 8311.)

4. Jefferies & Co., Inc. further agrees to the following undertaking:

Buyback Offer

- a. Jefferies will offer to purchase at par ARS that are subject to auctions that have not been successful as of the date of this AWC and are not subject to current calls or redemptions ("Eligible ARS") from all investors in the Relevant Class, as described below, that have not previously had their ARS repurchased by Jefferies as a result of its voluntary buybacks or other remedial efforts. For purposes of this AWC, the Relevant Class shall be comprised of all Individual Investors who purchased Eligible ARS from Jefferies at any time between May 31, 2006 and February 28, 2008 into accounts maintained at Jefferies, with the exception of two individuals whose names have been separately identified in a communication between Jefferies and the Department of Enforcement dated March 2, 2011. In addition to natural persons, the following entities will also be treated as Individual Investors (except to the extent they are for the benefit of or controlled by either of the two individuals referenced above):
 - i. Any account with the following beneficial owner:
 1. non-profit charitable organizations; and
 2. religious corporations or entities.
 - ii. Any account with the following beneficial owner (other than any entity that is a public company with assets of more than \$50 million as of December 31, 2007) the value of which at the time of any ARS purchase made through Jefferies between May 31, 2006 and February 28, 2008 did not exceed \$10 million:
 1. trusts;
 2. corporate trusts;
 3. corporations;
 4. Employee pension plans/ERISA and Taft Hartley Act plans;

5. educational institutions;
6. incorporated non-profit organizations;
7. limited liability companies;
8. limited partnerships;
9. non-public companies;
10. partnerships;
11. personal holding companies; and
12. unincorporated associations.

- b. No later than 30 days following the date this AWC is accepted by FINRA, Jefferies will:
 - i. Provide notice to those current customers in the Relevant Class who have rights under this AWC and make its best efforts to provide notice to former customers in the Relevant Class of the settlement terms set forth in this AWC. Such notice shall not be unacceptable to the FINRA staff;
 - ii. Contemporaneously establish a dedicated telephone assistance line, with appropriate staff, to respond to questions from investors concerning the terms of the settlement; and
 - iii. Commence the buyback of all Eligible ARS by written offer to the Relevant Class (the "Written Offer"). Investors will be given at least thirty (30) days from the date of the Written Offer letter to respond to the Written Offer. The buyback will be completed no later than sixty (60) days after the date of the Written Offer letter.
- c. Commencing no later than six (6) months from the date the AWC in this matter is accepted by FINRA, Jefferies shall make its best efforts to provide liquidity to all other investors not in the Relevant Class but who purchased Eligible ARS from Jefferies between May 31, 2008 and February 28, 2008 and own such ARS as of the date of this AWC. Such best efforts, which are at Jefferies' discretion, shall be completed no later than sixty (60) days following commencement of the best efforts. This best efforts provision does not apply to the two investors excluded from the definition of Relevant Class in 4(a) above or to any other entity that has litigated or arbitrated to final judgment its ARS claims against Jefferies.

Relief for Investors Who Sold Below Par

- d. No later than the completion of the buyback, any investor in the Relevant Class that Jefferies can reasonably identify who sold Eligible ARS below par between February 28, 2008 and the date of this AWC will be paid the difference between par and the price at which the investor sold the ARS.

Consequential Damages Claims

- e. Jefferies agrees to arbitrate claims for consequential damages filed by investors in the Relevant Class relating to Eligible ARS through a Special Arbitration Program (SAP) in accordance with rules set forth by FINRA Dispute Resolution under the authority of this AWC. Such rules have been issued and are available to Jefferies and investors through FINRA's web site. No later than the date of the Written Offer letter, Jefferies shall notify those investors in the Relevant Class who are eligible to seek consequential damages related to Eligible ARS under the SAP. This process is voluntary on the part of qualifying investors and does not preclude those investors who elect not to participate in the SAP from pursuing other available remedies. Arbitration under the SAP shall be conducted by a single public arbitrator, unless the claim for consequential damages is \$1,000,000 or greater, in which case, a panel of three public arbitrators may be appointed if both parties agree.
- f. Any investors who choose to pursue such claims shall bear the burden of proving that they suffered consequential damages and that such damages were caused by investors' inability to access funds consisting of investors' ARS purchases through Jefferies. Jefferies shall be able to defend itself against such claims provided, however, solely for the purposes of the SAP, Jefferies shall not contest liability related to the sale of ARS; and provided further that Jefferies shall not be able to use as part of its defense an investor's decision not to sell ARS holdings prior to the acceptance of this AWC nor the investor's decision not to borrow money from Jefferies if such loan facility was made available to ARS holders.

Reports Concerning Compliance with Settlement

- g. Jefferies shall provide FINRA with a report no later than thirty (30) days following the completion of the buyback setting forth (a) the names and account numbers of each ARS customer to whom the buyback offer was made, (b) an accounting of each instance in which such ARS customers accepted the buyback offer and sold ARS holdings to Jefferies, and (c) the names, account numbers, and an accounting of those customers paid pursuant to paragraph d above. Jefferies shall also notify FINRA within thirty (30) days of the completion of the best efforts undertaking set forth above in paragraph c of the nature and results of such efforts. The accuracy of such reports shall be certified by the Chief Compliance Officer of Jefferies.

* * * * *

The sanctions imposed herein shall be effective on a date set by FINRA staff.

For good cause shown, and upon receipt of a timely written request from Jefferies, FINRA staff may extend any of the dates set forth above.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondents specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against them;
- 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, Respondents specifically and voluntarily waive 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.

Respondents further specifically and voluntarily waive 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

Respondents understand that:

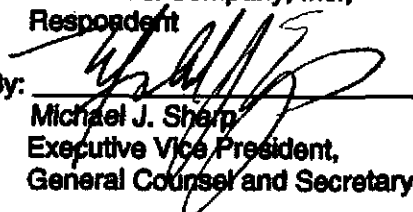
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondents; and
- C. If accepted:
 - 1. This AWC will become part of Respondents' 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 FINRA Rule 8313 and
4. Respondents 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. Respondents 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 Respondents' right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they 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 Respondents or, in the case of Respondent Jefferies, a person duly authorized to act on behalf of Jefferies, certify that they have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that each 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 Respondents to submit it.

3/9/11
Date

Jefferies & Company, Inc.,
Respondent
By: 
Michael J. Sharp
Executive Vice President,
General Counsel and Secretary

Date

Anthony J. Russo, Respondent

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 FINRA Rule 8313 and
 4. Respondents 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. Respondents 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 Respondents' right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they 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 Respondents or, in the case of Respondent Jefferies, a person duly authorized to act on behalf of Jefferies, certify that they have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that each 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 Respondents to submit it.

Jefferies & Company, Inc.,
Respondent

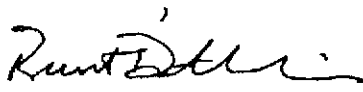
Date

By: _____
Michael J. Sharp
Executive Vice President,
General Counsel and Secretary

3/11/2011
Date


Anthony J. Russo, Respondent

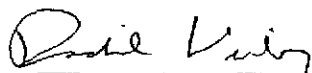
3/14/2017
Date


Robert A. D'Addario, Respondent

Reviewed by:

Robert M. Romano, Esq.
Counsel for Jefferies & Company, Inc.
Morgan, Lewis & Bockius LLP
101 Park Avenue
New York, NY 10178
(212) 309-7083

David Spears, Esq.
Counsel for Anthony J. Russo
Spears & Innes LLP
51 Madison Avenue
New York, NY 10010
(212) 213-6996


Richard D. Weinberg, Esq.
Counsel for Robert A. D'Addario
Morvillo, Abramowitz, Grand, Iason, Anello & Bohrer, P.C.
565 Fifth Avenue
New York, NY 10017
(212) 880-9485

Date

Robert A. D'Addario, Respondent

Reviewed by:



Robert M. Romano, Esq.
Counsel for Jefferies & Company, Inc.
Morgan, Lewis & Bockius LLP
101 Park Avenue
New York, NY 10178
(212) 309-7083

David Spears, Esq.
Counsel for Anthony J. Russo
Spears & Imes LLP
51 Madison Avenue
New York, NY 10010
(212) 213-6996

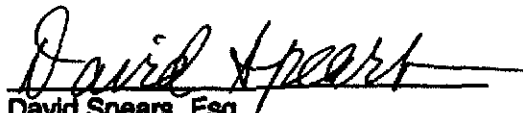
Richard D. Weinberg, Esq.
Counsel for Robert A. D'Addario
Morvillo, Abramowitz, Grand, Iason, Anello & Bohrer, P.C.
565 Fifth Avenue
New York, NY 10017
(212) 880-9485

Date

Robert A. D'Addario, Respondent

Reviewed by:

Robert M. Romano, Esq.
Counsel for Jefferies & Company, Inc.
Morgan, Lewis & Bockius LLP
101 Park Avenue
New York, NY 10178
(212) 309-7083

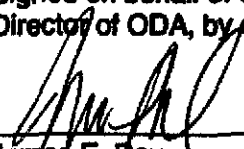

David Spears, Esq.
Counsel for Anthony J. Russo
Spears & Imes LLP
51 Madison Avenue
New York, NY 10010
(212) 213-6996

Richard D. Weinberg, Esq.
Counsel for Robert A. D'Addario
Morvillo, Abramowitz, Grand, Iason, Anello & Bohrer, P.C.
565 Fifth Avenue
New York, NY 10017
(212) 880-9485

Accepted by FINRA:

9/19/11
Date

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


James E. Day
Chief Counsel and Associate V.P.
FINRA Department of Enforcement
1801 K Street, NW, Suite 800
Washington, DC 20006

(202) 974-2917 (telephone)
(202) 721-8303 (fax)