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REGISTRATION & DISCLOSURE

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20080146201**

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

RE: City National Securities, Inc., Respondent
Member Firm
BD No. 103705

Pursuant to NASD 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 the Firm 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

City National Securities, Inc. ("CNS" 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 November 3, 1999. CNS is a full service brokerage firm headquartered in Beverly Hills, California, and has 10 active branches and approximately 85 registered representatives.

PRIOR DISCIPLINARY HISTORY

The Firm has no prior disciplinary history.

OVERVIEW

During the period from May 31, 2006 through February 28, 2008 ("the Relevant Period"), CNS violated NASD and MSRB rules relating to communications with the public in its marketing and sale of auction rate securities ("ARS") and failed to

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maintain adequate supervisory procedures concerning its sales and marketing activities regarding ARS, as required by NASD and MSRB rules.

During the Relevant Period, CNS used advertising and marketing materials for ARS that were not fair and balanced and did not provide a sound basis for evaluating the facts in regard to purchases of ARS. Among other things, the materials did not contain adequate disclosure of the risks of ARS, including the risks that ARS auctions could fail, that investments in ARS could become illiquid, and that customers might be unable to obtain access to funds invested in ARS for substantial periods of time. The materials thus violated NASD Rule 2210, 2211 and MSRB Rule G-21 as discussed below.

CNS also failed to establish and maintain a supervisory system, including written supervisory procedures, that was reasonably designed to achieve compliance with NASD and MSRB rules in the marketing and sale of ARS. For instance, CNS failed to maintain policies and procedures that were reasonably designed to ensure that registered representatives: (a) accurately described ARS to customers and (b) provided customers with full disclosure of the risks of ARS investments. CNS also failed to provide adequate training to registered representatives regarding the features and characteristics of ARS, especially those affecting liquidity.

As a result of the foregoing, CNS violated NASD Rules 2210, 2211, 3010 and 2110 and MSRB Rules G-21, G-27 and G-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 in recent years 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

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.

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 other underwriters, auction dealers and auction agents in the ARS market.² During the summer of 2007, ARS auctions began to fail, and by February 2008, ARS auctions failed on a widespread basis. 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.

ARS ACTIVITIES BY CNS

During the Relevant Period, CNS acted as a downstream secondary dealer of ARS. CNS sold approximately \$1.9 billion of ARS to customers, almost exclusively municipal ARS ("MARS") during that period. As of February 28, 2008, approximately \$1.195 billion of ARS was held in 1,560 retail accounts at CNS. As of the date a settlement in principle was reached in this matter, October 21, 2008, customers held approximately \$28 million of ARS in CNS retail accounts.

VIOLATIONS

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

Communications with the Public: NASD Rule 2210, 2211,
and MSRB Rule G-21

NASD Rule 2210(d)(1)(A) requires 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 in regard to any particular security or type of security, industry or service.

NASD Rule 2211 provides that materials distributed to registered or associated persons must also meet the requirements of NASD Rule 2210(d)(1) and MSRB Rule G-21 governs advertisements relating to municipal securities.

CNS violated NASD Rule 2210, 2211 and MSRB Rule G-21 by using materials with customers and prospective customers that were not fair and balanced and did not provide a sound basis for evaluating the facts in regard to purchases of ARS.

Among other things, the materials used by CNS failed to adequately disclose the risks of investing in ARS, including the risk that ARS auctions could fail, that investments in ARS could become illiquid, and that customers might be unable to obtain access to funds invested in ARS for substantial periods of time. The materials used by CNS also made inappropriate comparisons between ARS and other materially different investments.

For example, the Firm's "Investment Proposal," distributed to potential ARS customers, described the potential advantages of ARSs in maintaining short-term liquidity and as an investment to manage day-to-day cash needs. In neither the "Investment Proposal" nor the Firm's "City National Yield Report" was there disclosure about the potential for illiquidity with an ARS in the event of an unsuccessful auction. Certain of the materials relied upon internally by the Firm's registered representatives similarly described ARSs as low risk, high quality, short-term investment alternatives to traditional cash management investments that would allow investors to manage day-to-day cash needs and maintain liquidity. These internal materials also failed to adequately disclose the potential for illiquidity.

As a result of the foregoing, CNS violated NASD Rules 2210, 2211 and MSRB Rule G-21 and, as a result, also violated NASD Rule 2110 and MSRB G-17.

Supervisory Procedures: NASD Rule 3010 and MSRB Rule G-27

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.

CNS violated NASD Rule 3010 and MSRB Rule G-27 by failing to establish and maintain procedures that were reasonably designed to ensure that it marketed and sold ARS in compliance with securities laws and applicable NASD and MSRB rules. For instance, CNS failed to maintain procedures reasonably designed to ensure that its registered representatives accurately described ARS to customers during sales presentations and that representatives provided customers with adequate disclosure of the risks of ARS, including the risk that ARS auctions could fail and that investments in ARS could therefore become illiquid. CNS also failed to provide adequate training to its registered representatives regarding the features and characteristics of ARS and the differences between ARS and other investments.

CNS also failed to establish and maintain procedures that were reasonably designed to ensure that the written materials it used in connection with the marketing and sale of ARS complied with the appropriate disclosure standards in NASD Rules 2210, 2211 and MSRB Rule G-21.

As a result of the foregoing, CNS violated NASD Rule 3010 and MSRB Rule G-27 and, as a result, violated NASD Rule 2110 and MSRB G-17.

OTHER FACTORS

In determining the appropriate sanctions in this matter, FINRA notes that, pursuant to the settlement in principle previously reached in this matter, CNS agreed to address harm sustained by customers as a result of the illiquidity in the ARS market that began in February 2008, as described below.

Additionally, CNS took the following actions, prior to FINRA's investigation, to address harm sustained by customers as a result of the illiquidity in the ARS market:

Beginning in February 2008, CNS contacted those customers who held ARS in their accounts to determine their liquidity needs. For those customers who expressed a need for liquidity, CNS purchased ARS securities from those customers in an amount totaling \$22,950,000. The Firm initiated similar contacts with customers again in April and June 2008 which resulted in CNS repurchasing an additional \$15,395,000 in ARS from its customers since April 2008. In September 2008, the Firm extended its buyback offer to all retail ARS customers who had submitted sell orders for their holdings of ARS securities in failed auctions. As of September 2008 the Firm had repurchased \$241 million of municipal ARS securities from customers at par.

SANCTIONS

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

1. A censure;
2. A fine in the amount of \$ 315,000.

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.

Buyback Offer

3. CNS will offer to purchase at par ARS that are subject to auctions that have not been successful as of October 21, 2008 and are not subject to current calls or redemptions ("Eligible ARS") from all investors in the Relevant Class, as described below. For purposes of this AWC, the Relevant Class shall be comprised of all Individual Investors who purchased Eligible ARS from CNS at any time between May 31, 2008 and February 28, 2008 into accounts maintained at CNS. In addition to natural persons, the following entities will also be treated as Individual Investors:

- a. Any account with the following beneficial owner:
 1. non-profit charitable organizations; and
 2. religious corporations or entities.
- b. Any account with the following beneficial owner the value of which at the time of any ARS purchase made through CNS 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.

4. No later than 30 days following the date this AWC is accepted by FINRA, CNS will:

- a. Provide notice to current customers in the Relevant Class 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; and
- b. 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.

5. Commencing no later than six (6) months from the date the AWC in this matter is accepted by FINRA, CNS shall make its best efforts to provide liquidity to all other investors not in the Relevant Class but who purchased Eligible ARS from CNS at any time between May 31, 2006 and February 28, 2008. Such best efforts, which may include, but are not limited to, offers to purchase Eligible ARS and/or offers of low or no-interest loans, extended on the basis of reasonable and customary credit standards, shall be completed no later than sixty (60) days following commencement of the best efforts.

Relief for Investors Who Sold Below Par

6. No later than the completion of the buyback, any investor in the Relevant Class that CNS can reasonably identify who sold Eligible ARS below par between February 28, 2008 and October 21, 2008, will be paid the difference between par and the price at which the investor sold the ARS.

Consequential Damages Claims

7. CNS 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 will be issued and available to CNS and investors through FINRA's web site. No later than the date of the Written Offer letter, CNS shall notify investors in the Relevant Class that they are eligible to seek consequential damages related to Eligible ARS through 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.

8. 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 CNS. CNS shall be able to defend itself against such claims provided, however, solely for the purposes of the SAP, CNS shall not contest liability related to the sale of ARS; and provided further that CNS shall not be able to use as part of its defense an investor's decision not to sell ARS holdings³ prior to the acceptance of this AWC nor the investor's decision not to borrow money from CNS if such loan facility was made available to ARS holders.

Reports Concerning Compliance with Settlement

9. CNS 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 CNS, and (c) the names, account numbers, and an accounting of those customers paid pursuant to paragraph 6 above. CNS shall also notify FINRA within thirty (30) days of the completion of the best efforts undertaking set forth above in paragraph 5 of the nature and results of such efforts. The accuracy of such reports shall be certified by the Chief Compliance Officer of CNS.

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 CNS, FINRA staff may extend any of the dates set forth above.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against the Firm;

³ However, arbitrators may consider the firm's unconditional buy-back offer at par, including the timing and delivery of such offer, in their determination of consequential damages.

- 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, 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 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

Respondent understands that:

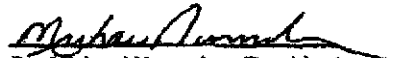
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to NASD Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Firm; and
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Firm;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the Firm's disciplinary record;

3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-3; and
 4. The Firm may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. The Firm may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects 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.

Respondent certifies that it has read and understand all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it 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 Respondent to submit it.

5-20-99
Date

City National Securities, Inc., Respondent
400 N. Roxbury Dr.
Beverly Hills, California 90210


By: Michael Nunnelee, President

Reviewed by:


Theodore Levine, Counsel for Respondent
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51 West 52nd Street
New York, N.Y. 10019
212-403-1262

Accepted by FINRA:

May 21, 2009
Date

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



Linda S. Riefberg,
Vice President
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