

FINRA

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20090170064-01**

2011 MAR -9 PM 12:47

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

RE: **Domestic Securities, Inc.**, Respondent
Broker-Dealer
CRD No. 34721

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Domestic Securities, Inc. ("DOMS" or the "firm") 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. The firm hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

The firm has been a member of FINRA since May 6, 1994. The firm's registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

The firm does not have any relevant prior disciplinary history.

SUMMARY

This matter arose out of the following reviews:

- 20090170064, the 2009 Trading and Market Making Surveillance examination of the firm, wherein the Market Regulation Department TMMS staff reviewed the items set forth on Exhibit A. Unless otherwise stated, the samples were from trade dates March 24 and 25, 2009 (the "2009 TMMS review period").
- 20090181462, wherein the Market Regulation Department Customer Issues staff reviewed the firm's handling and execution of market orders during the period January 1, 2009 through March 31, 2009 (the "market order timeliness review period").

FACTS AND VIOLATIVE CONDUCT

20090170064

1. During the 2009 TMMS review period, the firm transmitted to OATS 22 reports that contained inaccurate, incomplete, or improperly formatted data. Specifically, 21 reports were marked with a Limit Order Display Indicator of "Y", indicating that the firm received instructions from the customer that a non-block size limit order should not be displayed or a block size limit order should be displayed, when in fact no such instruction was received. In one instance, the firm failed to submit a cancel report. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.

20090181462

2. In 40 instances during the market order timeliness review period, the firm failed to execute orders fully and promptly. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 2010 and NASD Rule 2111(a).
3. Of the 40 instances cited above, in 17 transactions for or with a customer during the market order timeliness review period, the firm failed to use reasonable diligence to ascertain the best inter-dealer market and failed to buy or sell in such market so that the resultant price to its customer was as favorable as possible under prevailing market conditions, as reflected on Exhibit B which is attached. The conduct

described in this paragraph constitutes separate and distinct violations of FINRA Rule 2010 and NASD Rule 2320.

B. The firm also consents to the imposition of the following sanctions:

A censure, a fine of \$17,500 (composed of \$7,500 for the OATS violations in 20090170064 and \$10,000 for the best execution and market order timeliness violations in 20090181462), and restitution by Respondent to the investors listed on Exhibit B which is attached, in the total amount of \$390.21, plus interest at the rate set forth in Section 6621(a) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from the date of the violative conduct until the date this AWC is accepted by the National Adjudicatory Council. A registered principal of the firm shall submit satisfactory proof of payment of the restitution, or of reasonable and documented efforts undertaken to effect restitution, to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850 or in an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, no later than 120 days after acceptance of this AWC. If for any reason, Respondent cannot locate any customer after reasonable and documented efforts within such period, or such additional period agreed to by the staff, Respondent shall forward any undistributed restitution and interest to the appropriate escheat, unclaimed-property or abandoned-property fund for the state in which the customer is known to have last resided.

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

The firm 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

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

- A. To have a Complaint issued specifying the allegations against the firm;
- 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, the firm 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.

The firm 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

The firm 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 the firm; and
- C. If accepted:
 - 1. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against 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. 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 the firm's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm 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.

3-8-11
Date

By: [Signature]

Title: CCO

Counsel for Respondent

4/5/11
Date

Thomas R. Gira
Thomas R. Gira
Executive Vice President
Department of Market Regulation

2009 Market Regulation Examination Samples
Domestic Securities, Inc. ("DOMS")
Exam No. 20090170064
Sample Source/Period*:
March 24 and 25, 2009

<u>Sample Size</u>	<u>Sample Description</u>
0	Sales reviewed for compliance with SEC Rule 200(g) long/short sale recording requirements
0	Short Sales reviewed for compliance with SEC Rule 203(b) security location requirements
1	Sales reviewed for compliance with SEC Rule 204T fail-to-deliver requirements
435	Trades reported to a TRF or OTCTRF for compliance with FINRA Rules 7230A, 7330, 6182, 6380A, 6380C, 6622 and 6624
	<u>435</u> for general trade reporting requirements
	<u>9</u> for Cancellation of reported trade requirements
	<u>435</u> for Principal, Riskless Principal, or Agency executions effected otherwise than on an exchange
	<u>1</u> for compliance with the use of the .PRP (Prior Reference Price) trade modifier
	<u>30</u> for compliance with the requirements of odd-lot trade reporting
	<u>0</u> for compliance with the use of the .RA trade modifier (prices away from the market)
	<u>0</u> for compliance with the use of the .RX trade modifier (exercise OTC options contract)
	<u>0</u> for compliance with SEC '34 Act Section 28(e) guidelines relating to Soft Dollar Agreements
	<u>90</u> for Sale Indicator requirements
N/A	Disclosure to customers relating to trading in the Extended Hours session for compliance with FINRA Rule 2265 and Nasdaq Rule 4631
0	Orders entered into Nasdaq Exchange execution systems for compliance with Nasdaq Rule 4755 long/short reporting requirements
0	Orders entered into BATS Exchange execution systems for compliance with BATS Rule 11.19 long/short reporting requirements
20	Limit orders for NMS securities in which the member acts as an exchange market maker for compliance with the display requirements of SEC Rules 602 and 604 and Nasdaq Rule 3390
121	Orders for compliance with best execution requirements of NASD Rule 2320
	<u>97</u> Orders executed as principal for compliance NASD Rule 2320 and with the order protection requirements of FINRA Rule 2010, NASD Rules IM 2110-2, and 2111 and Nasdaq Rules 2110, IM-2110-2, and 2111
	<u>0</u> 'Not Held' orders for compliance with NASD Rule 2320 and Nasdaq Rule 2320 best execution requirements
	<u>0</u> Customer market orders in CQS securities for compliance with NASD Rule 2320 and Nasdaq Rule 2320 best execution requirements
	<u>24</u> Customer orders in OTC equity securities for compliance with NASD Rules 2320 and 3110(b) requirements to ascertain and document best interdealer market related to execution of orders
4	Open Limit orders to buy and/or open Stop orders to sell securities that traded ex-dividend for compliance with NASD Rule 3220 and Nasdaq Rule 4761
0	Order memoranda and Net Trading agreements for compliance with NASD Rule 2441 requirements
51	Orders in securities required to be submitted to OATS for compliance with FINRA Rules 7440 and 7450 and Nasdaq Rules 6954 and 6955 requirements

Exhibit A**2009 Market Regulation Examination Samples
Domestic Securities, Inc. ("DOMS")****Exam No. 20090170064****Sample Source/Period*:****March 24 and 25, 2009**

<u>Sample Size</u>	<u>Sample Description</u>
0	Customer confirmations prepared and maintained in connection with select samples 0 for compliance with SEC Rule 10b-10 disclosure requirements 0 for compliance with SEC '34 Act Section 28(e) guidelines relating to Soft Dollar Agreements
25	Orders for NMS securities in which the Firm acts as a market center for compliance with SEC Rule 605 order classification requirements
0	Data sets published for monthly order execution report for compliance with SEC Rule 605 requirement to publish accurate data (a 'data set' encompasses all required statistical data for single security and order type/size category as described in SEC Rule 605)
0	Orders underlying data sets reviewed for NMS securities in which the Firm acts as a market center for compliance with SEC Rule 605 order classification requirements
N/A	Quarterly Routing Report for compliance with SEC Rule 606 requirements
11	CRD registration records for persons conducting and/or supervising Firm's trading and/or market making activities for compliance with NASD Rule Series 1020, 1030, 1040 and Nasdaq Rule Series 1020, 1030, 1040
All Provided	Member's "Regular & Rigorous" review procedures regarding order execution quality for compliance with NASD Rules 2320 and 3010
All Provided	Member's supervisory system, written supervisory procedures ("WSPs") and documentation evidencing execution of the WSPs for compliance with NASD Rule 3010 and BATS Rule 5.1 requirements
All Provided	Member's supervisory and operational policies and procedures and documentation evidencing execution of the policies and procedures for compliance with SEC Regulation NMS Rules 610, 611, and 612
309	Records prepared and maintained in connection with the above samples for compliance with SEC Rules 17a-3 and 17a-4 and NASD Rule 3110

Domestic Securities, Inc. ("DOMS")
1st Quarter 2009 Market Order Timeliness Review

Item No.	Date	Issue	Quantity	Trade Time	Trade Price	Restitution
1	1/2/2009	ORLY	88	11:24:16	31.05	\$1.76
2	1/8/2009	PSUN	2100	10:43:33	1.72	\$21.00
3	1/8/2009	APSG	100	15:53:25	19.69	\$42.00
			100	15:53:25	19.68	
			500	15:53:25	19.7	
			100	15:53:25	19.73	
			100	15:53:25	19.69	
			100	15:53:25	19.73	
4	1/13/2009	PETS	532	14:05:08	15.91	\$15.96
5	1/26/2009	ORLY	450	11:28:07	30.27	\$13.50
6	1/26/2009	SOLF	865	14:02:09	4.93	\$25.95
7	1/30/2009	IRIX	850	11:05:08	0.75	\$17.00
8	2/3/2009	RYAAY	50	11:57:48	26.05	\$4.50
			100	11:57:48	26.05	
9	2/12/2009	CLNE	100	14:34:10	6.91	\$38.00
			100	14:34:10	6.91	
			100	14:34:10	6.9	
			100	14:34:10	6.91	
			300	14:34:10	6.89	
			700	14:34:11	6.89	
			100	14:34:11	6.89	
10	2/13/2009	ORLY	35	13:25:27	28.54	\$1.75
11	3/2/2009	ORLY	100	14:56:45	32.36	\$6.40
			60	14:56:45	32.36	
12	3/3/2009	CEPH	50	10:13:16	64.23	\$1.00
13	3/4/2009	CHFC	100	14:13:25	16.30	\$28.44
			100	14:13:25	16.21	
			100	14:13:25	16.20	
			100	14:13:25	16.21	
			44	14:13:25	16.29	
14	3/13/2009	FSYS	100	11:49:11	11.84	\$15.30
			400	11:49:11	11.84	
			65	11:49:11	11.84	
			200	11:49:11	11.84	
15	3/13/2009	ORLY	35	15:13:18	34.96	\$1.05
16	3/26/2009	FEED	750	09:39:53	2.72	\$25.50
			150	09:39:53	2.73	
17	3/27/2009	INPH	200	12:10:56	3.04	\$131.10
			106	12:10:56	3.00	
			94	12:10:56	2.98	
			100	12:10:56	2.99	
			6	12:10:56	2.98	
			100	12:10:56	3.00	
			100	12:10:56	3.09	
			200	12:10:56	3.09	
			194	12:10:56	3.09	
			100	12:10:56	3.04	
			94	12:10:56	3.00	
					Total:	\$390.21