

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2011027246701**

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

RE: RBS Securities, Inc., Respondent
CRD No. 11707

RCUD 2013DEC23PM12:25

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, RBS Securities, Inc. ("RBS" 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 RBS alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. RBS 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

RBS has been a member of FINRA since December 1, 1983. The Firm engages in a general securities business, including options, bonds, mutual funds, and government-issued securities. RBS is headquartered in Stamford, Connecticut and employs approximately 1,052 registered representatives.

RELEVANT DISCIPLINARY HISTORY

RBS has no relevant disciplinary history.

OVERVIEW

During September 2009 and July 2010 (the "Relevant Period"), RBS violated the federal securities laws and NYSE, NASD and FINRA rules by failing to make accurate net capital and customer reserve computations, comply with the possession or control requirements of the customer protection rule, comply with the requirements of Regulation SHO of the Securities Exchange Act of 1934 ("Exchange Act"), maintain accurate books and records, and establish and maintain reasonable supervisory systems and procedures.

RBS made erroneous net capital and customer reserve bank account calculations and failed to comply with possession or control requirements in violation of Section 15(c) of the Exchange Act and Rules 15c3-1 and 15c3-3 thereunder. RBS also violated Regulation SHO by failing to (a) properly mark sell orders in a customer account as "long" or "short" as required by Rule 200(g) of Regulation SHO due to improper use of the aggregation unit order marking method, and (b) obtain and document required locates prior to accepting or effecting short sales, as required by Rule 203 of Regulation SHO. In addition, RBS violated Section 220.12 of Regulation T and NASD Rule 2520 by incorrectly computing its margin requirements. RBS also violated Section 17(a) of the Exchange Act and Rule 17a-3(a) thereunder in that it failed to record on its stock record "to be announced" ("TBA") transactions that had passed settlement date; failed to document the ownership and lending of shares in one affiliated customer's account; and maintained inaccurate stock records and positions for accounts designated by the Firm as good control locations. RBS also violated Incorporated NYSE Rule 409 by failing to include on certain customer statements opening and closing balances and activity in the customers' accounts. Lastly, the Firm violated NASD Rule 3010(a) in that it failed to implement a supervisory system and procedures reasonably designed to achieve compliance with Exchange Act Rules 15c3-1, 15c3-3, 17a-3 and Regulation SHO.

FACTS AND VIOLATIVE CONDUCT

During the Relevant Period, RBS failed to (1) make accurate net capital and customer reserve computations; (2) comply with the possession or control requirements of the customer protection rule; (3) comply with the requirements of Regulation SHO; (4) correctly calculate its margin requirements; (5) keep complete and accurate books and records; (6) include required information on customer account statements; and (7) implement adequate supervisory systems and procedures.

A. Failures Related to the Firm's Customer Reserve Account and Customer Reserve Formula

1. Failure to Prepare an Accurate Customer Reserve Calculation

Section 15(c) of the Exchange Act and Rule 15c3-3 thereunder require a broker-dealer to maintain a "Special Reserve Bank Account for the Exclusive Benefit of Customers" ("Reserve Account") and to fund the Reserve Account in accordance with the provisions of Exhibit A to Rule 15c3-3. Exhibit A sets forth in detail the computational "Formula for Determination of Reserve Requirement for Brokers and Dealers." A FINRA-regulated broker-dealer whose Reserve Account funds decline below the minimum amount required under this formula must give immediate notice of such deficiency to the U.S. Securities and Exchange Commission ("SEC") and to FINRA. A violation of Section 15(c) of the

Exchange Act and Rule 15c3-3 thereunder constitutes a violation of FINRA Rule 2010.

As discussed below, the Firm violated Section 15(c) of the Exchange Act and Rule 15c3-3 thereunder and FINRA Rule 2010 by failing to prepare an accurate reserve formula calculation as of February 26, 2010. The inaccurate calculation resulted from the Firm's (a) failure to use a proper security position allocation system for customer RVP/DVP¹ fails in its fixed income business, thereby incorrectly representing the underlying security positions; and (b) failure to include a \$421,558 credit in the customer reserve formula for the excess in the aggregate value of securities borrowed through an agent lender over the aggregate value of the collateral provided. The Firm's inaccurate reserve formula calculation did not result in a hindsight deficiency.

a. Failure to Use a Proper Security Position Allocation System

RBS's security position allocation system for its fixed income business ensured that all customer RVP/DVP fails were included in the customer reserve formula computation, but incorrectly represented the underlying security positions. The system allocated certain customer shorts versus bonds borrowed when there were no bonds borrowed in that security in the Firm's fails reports ("Fails Reports"). The system allocated as "principal sales to customers" positions that were listed in the Fails Reports as "customer long." As a result of these incorrect allocations, the Firm's transactions were incorrectly represented in the reserve formula computation. In addition, the securities positions on the Firm's stock record did not always match the quantities in the Firm's allocation system.

By incorrectly allocating security positions, which resulted in incorrect representations in the customer reserve formula, the Firm failed to comply with the requirements of Section 15(c) of the Exchange Act and Rule 15c3-3 thereunder and violated FINRA Rule 2010.

b. Failure to Include a \$421,558 Credit
in the Customer Reserve Formula

The Firm did not include in its customer reserve formula as of February 26, 2010, a \$421,558 credit for the excess in the aggregate value of securities borrowed through an agent lender over the collateral provided by that lender.

By failing to include the \$421,558 credit in its customer reserve formula, the Firm violated Section 15(c) and Rule 15c3-3 of the Exchange Act and FINRA Rule 2010.

¹ "RVP" means Receipt Versus Payment and "DVP" means Delivery Versus Payment.

By virtue of the conduct described above, the Firm did not prepare an accurate reserve formula in violation of Section 15(c) of the Exchange Act and Rule 15c3-3 thereunder and FINRA Rule 2010.

2.Failures Related to Control of Fully Paid and Margin Securities

Exchange Act Rule 15c3-3(b)(1) requires, in relevant part, that broker-dealers promptly obtain and maintain physical possession or control of all fully-paid securities and excess margin securities carried for customer accounts.

The Firm failed to comply with the requirements for possession or control of securities under Exchange Act Rule 15c3-3 due to its (a) failure to keep accurate records of excess margin securities and securities deficits; and (b) failure to obtain good control locations.

a. Failure to Keep Accurate Records of Excess Margin Securities and Securities Deficits

Under Exchange Act Rule 15c3-3(d)(1)/09, a firm must prepare a listing of all instances in which it is required to obtain physical possession or control of customers' fully-paid and excess margin securities and deficit positions. A securities deficit position constitutes shares of securities in customer accounts over which a firm should have physical possession or control but does not.

Under Exchange Act Rule 15c3-3(d)(1)/01, segregation instructions of customer security positions must be issued by the margin section to the cashing section to acquire possession or control.

During the Relevant Period, RBS did not have an adequate process to identify customers that had accounts on its two back office platforms and to issue segregation instructions for customer positions accordingly. As a result, the Firm's excess margin and deficit position listings could have been inaccurate because they did not consider the customer positions on both platforms.

The Firm's failure to have an adequate process to accurately issue segregation instructions for customer positions violated Section 15(c) of the Exchange Act and Rule 15c3-3 thereunder and FINRA Rule 2010.

b.Failure To Obtain a Good Control Location

RBS maintained customer positions in the account of one of the Firm's foreign affiliates (the "Affiliate Account"), but was unable to provide evidence that the SEC had approved the Affiliate Account as a good control location. The Firm also failed to segregate two customer positions in the Affiliate Account as of February 26, 2010, although it was required to do so.

By failing to obtain a good control location and to have an adequate process to accurately segregate customer positions, the Firm violated Section 15(c) and Rule 15c3-3 of the Exchange Act and FINRA Rule 2010.

By virtue of the conduct described above, the Firm did not prepare an accurate reserve formula in violation of Section 15(c) of the Exchange Act and Rule 15c3-3 thereunder and FINRA Rule 2010.

B. Failures Related to the Firm's Net Capital Computation

Section 15(c) of the Exchange Act and Rule 15c3-1 thereunder require broker-dealers to maintain a minimum amount of net capital and to compute net capital in accordance with specified guidelines.

The net capital computation under Section 15(c) of the Exchange Act and Rule 15c3-1(c) thereunder stipulates the treatment of certain securities for net capital purposes, including variable-rate non-convertible debt securities and repurchase and reverse repurchase deficit calculations.

As discussed below, as of February 2010, RBS failed to take net capital charges related to variable non-convertible debt securities and repurchase and reverse repurchase transactions or improperly treated these transactions for net capital purposes, resulting in miscalculations of required net capital. These miscalculations reduced RBS's excess net capital, but did not result in a deficiency. The Firm also failed to prepare an accurate reconciliation of its intercompany accounts on a consolidated regional basis as opposed to a broker-dealer level, which could have impacted the net capital charges the Firm was required to take.

**1. Incorrectly Hedging, For Haircut Purposes,
Non-convertible Debt Securities**

Pursuant to Exchange Act Rule 15c3-1(c)(2)(vi)(F)1/2, Nonconvertible Debt Securities, "a broker or dealer may elect to exclude [from the rating categories listed in the Rule] ... long or short positions that are hedged with short or long positions in securities issued by the United States or any agency thereof or nonconvertible debt securities having a fixed interest rate and a fixed maturity date and which are not traded flat or in default as to principal or interest ... if such securities have [certain] maturity dates ..."

As of February 26, 2010, RBS was incorrectly hedging, for haircut purposes, variable-rate non-convertible debt securities with other variable-rate government securities. As a result, RBS understated its haircuts by \$7,510,757.

The Firm's improper hedging of non-convertible variable-rate securities violated Section 15(c) of the Exchange Act and Rule 15c3-1 thereunder and FINRA Rule 2010.

**2. Understatement of Capital Charges in Connection with
Repurchase and Reverse Repurchase Transactions**

NASD Rule 2520(b) provides that "[f]or the purpose of effecting new securities transactions and commitments, the customer shall be required to deposit margin in cash and/or securities in the account which shall be at least . . . the amount specified in Regulation T" NASD Rule 2520(b) further states that "[t]he margin which must be maintained in all accounts of customers . . . shall be as follows: (1) 25% of the current market value of all securities"

RBS failed to accurately calculate its repurchase and reverse repurchase deficit calculations, which caused it to understate its capital charges as of February 26, 2010. RBS treated as overnight transactions all contracts that had a termination date of March 1, 2010 (the next business day after February 26). As a result, RBS did not determine if a NASD Rule 2520 charge or a deficit charge was required and understated its capital charges by \$85 million.

RBS's understatement of its capital charges for repurchase and reverse repurchase transactions violated Section 15(c) of the Exchange Act and Rule 15c3-1 thereunder, NASD Rule 2520 and FINRA Rule 2010.

**3. Failure to Determine the Capital Charges
Related to Reverse Repurchase Agreements
Collateralized by Non-Marketable Securities That
Allocate a Box Location for More Than Two Days**

RBS incorrectly determined the capital charges related to reverse repurchase agreements collateralized by non-marketable securities that allocate to a box location for more than two days. First, the Firm's "Collateral for Bonds Borrow and Reverse Repo" report captured only the U.S. portion of the bonds that traded in dual currencies. As a result, the quantity reflected on the report differed from the Firm's stock record. Second, RBS used the quantities of the bonds as of February 26, 2010, rather than February 24, 2010, to determine the aged quantity in the box. As a result, RBS was not properly computing the capital charges on these transactions.

RBS's failure to determine accurately the capital charges related to reverse repurchase agreements collateralized by non-marketable securities that allocate to a box location for more than two days violated Section 15(c) of the Exchange Act and Rule 15c3-1 thereunder and FINRA Rule 2010.

4. Failure to Prepare An Accurate Reconciliation of its Intercompany Accounts at the Broker-Dealer Level

Exchange Act Rule 15c3-1(c)(2)(iv)/21 requires a firm to take capital charges when it is in possession of "net overall unfavorable bank account, correspondent account, clearing corporation and securities depository reconciliation differences disclosed by reconciliations ..." that are not resolved within the time frame provide in the Rule. The Rule further requires that a firm keep a record of any such differences and include the date of receipt of the pertinent statement of account or, in the absence of such record, a computation of the elapsed days from the date of the statement. The treatment of differences disclosed by reconciliations is governed by the requirements of Exchange Act Rule 15c3-1(c)(2)(iv).

RBS reconciled its intercompany accounts on a consolidated regional basis rather than at the broker-dealer level. RBS was therefore unable to evidence whether the differences in the intercompany payables and receivables on the intercompany affiliate's books and records as opposed to the intercompany payables and receivables on the broker-dealer's books and records pertained to the broker-dealer. The reconciling differences could have resulted in understated liabilities which, in turn, would have resulted in an unfavorable difference for net capital requirements.

By failing to prepare an accurate reconciliation of its intercompany accounts, RBS violated Section 15(c) and Rule 15c3-1(c)(2)(iv) of the Exchange Act and FINRA Rule 2010.

By virtue of the conduct described above, the Firm did not prepare an accurate net capital computation in violation of Section 15(c) of the Exchange Act and Rule 15c3-1 thereunder and FINRA Rule 2010.

C. Violations of Regulation SHO

Regulation SHO, among other things: (i) established a uniform "locate" requirement to reduce the number of potential failures to deliver; and (ii) created uniform order marking requirements for sales of equity securities.

During the Relevant Period, the Firm did not comply with the requirements of Regulation SHO by failing to (1) properly mark sell orders in a customer account as "long" or "short" as required by Rule 200(g) of Regulation SHO due to the improper use of the aggregation unit order marking method; and (2) obtain and document required locates prior to accepting or effecting short sales, as required by Rule 203 of Regulation SHO. The Firm's violations of Regulation SHO also constitute violations of FINRA Rule 2010.

**1.Failure to Accurately Mark Sale Orders as Long or Short
Due to Improper Use of Aggregation Unit Method**

Rule 200(g) of Regulation SHO requires that a broker or dealer must mark all sell orders of any security as "long," "short," or "short exempt."

Pursuant to Rule 200(a), a short sale is any sale of a security which the seller does not own or any sale which is consummated by the delivery of a security borrowed by, or for the account of, the seller.

Pursuant to Rule 200(g)(1), an order to sell shall be marked "long" only if the seller is deemed to own the security being sold...and either:(i) The security to be delivered is in the physical possession or control of the broker or dealer; or (ii) It is reasonably expected that the security will be in the physical possession or control of the broker or dealer no later than the settlement of the transaction.

Rule 200(f) of Regulation SHO sets forth an alternative means of order marking to be used solely for the proprietary sell orders of registered U.S. broker-dealers, which is referred to as the aggregation unit method. In adopting the aggregation unit order marking method, the SEC stated that it "has determined not to extend aggregation unit netting to entities that lack self-regulatory oversight and are not subject to Commission examination. The lack of regulatory oversight may facilitate the creation of units that are not truly independent or separate."

During the period September 2009 through February 23, 2010, the Firm failed to properly determine whether the customer account of a non-U.S. broker dealer affiliate (the "Foreign Affiliate Account") was "long" or "short" pursuant to Rules 200(a) and 200(g)(1) respectively when accepting sale orders for the account. The Firm improperly used the aggregation unit method to mark as "long" or "short" sell orders in the Foreign Affiliate Account. As a result, during the period February 15 through February 23, 2010, the Firm mismarked three sale transactions for the Foreign Affiliate Account as long sales, when the account was actually short the security.

In addition, from September 2009 through February 23, 2010, RBS improperly utilized the aggregation unit method to mark 22,561 root orders that resulted in 73,488 routed sell orders for the Foreign Affiliate Account. Each of these sell orders was potentially mismarked as "long" or "short" due to the improper use of the aggregation unit method in the account.

RBS violated Rule 200(g) of Regulation SHO and FINRA Rule 2010 by failing to accurately mark as "long" or "short" sell orders for trades of the Foreign Affiliate Account during the period of September 2009 through February 23, 2010.

2. The Firm Accepted and Effected Short Sales Without Valid Locates

Pursuant to Rule 203(b) of Regulation SHO, a broker-dealer may not accept a short sale order from another person or effect a short sale order for its own account unless the broker-dealer has either (1) borrowed the securities or entered into a bona fide arrangement to borrow the securities; or (2) has reasonable grounds to believe the security can be borrowed so that it can be delivered on the date delivery is due; and (3) has documented that it has either borrowed, or entered into an arrangement to borrow, the securities or located shares to give the broker-dealer reasonable grounds to believe that the shares will be delivered by the settlement date. Identifying a source from which to borrow such securities is generally referred to as obtaining a "locate." The locate must be made and documented prior to effecting a short sale.

On March 9, 2010, RBS did not locate a sufficient amount of shares prior to the execution of short sales in an equity security. The Firm located 100,000 shares but sold short a total of 137,300 shares in the security on that day, executing short sales for more shares than were located.

During the months of November 2009, March 2010 and July 2010, RBS failed to obtain and document required locates with respect to approximately 194 out of a total of approximately 2,876 short sale orders, or approximately 6.745% of short sale orders. In these instances, the Firm released for execution the 194 short sale orders although (1) no locate had been requested; (2) invalid locate codes were submitted; (3) the short sale orders individually or in the aggregate exceeded the approved locate amount; and/or (4) a locate had not yet been approved and documented.

In addition, for each sell order improperly marked long in the Foreign Affiliate Account, the Firm did not obtain a required locate for the actual short sale order.

The Firm's failure to obtain and document valid locates prior to effecting or accepting short sale orders violated Rule 203(b) of Regulation SHO. The Firm's violation of Regulation SHO also constitutes a violation of FINRA Rule 2010.

D. Margin Violations

Section 220.12 of Regulation T provides that borrowing and lending equity securities transactions with entities that are not broker-dealers are subject to a margin requirement of 50% of the value of the securities in the initial transaction.

NASD Rule 2520(b) provides that, "[f]or the purpose of effecting new securities transactions and commitments, the customer shall be required to deposit margin in cash and/or securities in the account which shall be at least . . . the amount specified in Regulation T" NASD Rule 2520(c) further provides that "[t]he

margin which must be maintained in all accounts of customers . . . shall be as follows: (1) 25% of the current market value of all securities”

A violation of Section 220.12 of Regulation T and NASD Rule 2520 also constitutes a violation of FINRA Rule 2010.

During February and March 2010, RBS loaned securities directly to the Foreign Affiliate Account and reflected the borrowed shares as a long position in the account. In instances where the borrowed shares were used to cover a short sale transaction, RBS’s margin system incorrectly treated the account as if it was short versus the box. By doing so, the Firm failed to accurately calculate the initial margin requirement of 50% and applied only a five percent maintenance margin requirement on the offsetting long and short positions.

By failing to apply the correct margin requirement, RBS violated Section 220.12 of Regulation T, NASD Rules 2520(b) and (c) and FINRA Rule 2010.

E. Books and Records Violations

Section 17(a) of the Exchange Act and Rule 17a-3 thereunder require that a broker-dealer make and keep current certain books and records relating to its business including “[l]edger accounts (or other records) itemizing separately as to each cash and margin account of every customer and of such member, broker or dealer and partners thereof, all purchases, sales, receipts and deliveries of securities and commodities for such account and all other debits and credits to such account.”

Exchange Act Rule 17a-3(a)(5) requires a Firm to make and keep current a “securities record or ledger reflecting separately for each security as of the clearance dates all ‘long’ or ‘short’ positions (including securities in safekeeping and securities that are the subjects of repurchase or reverse repurchase agreements) carried by such member, broker or dealer for its account or for the account of its customers or partners . . . and showing the location of all securities long and the offsetting position to all securities short”

NASD Rule 3110(a) provides, in pertinent part, that “[e]ach member shall make and preserve books, accounts, records, memoranda, and correspondence in conformity with all applicable laws, rules, regulations, and statements of policy promulgated thereunder and...as prescribed by SEC Rule 17a-3. The record keeping format, medium and retention period shall comply with Rule 17a-4 under the Securities Exchange Act of 1934.” A violation of Exchange Act Rule 17a-3 and NASD Rule 3110(a) also constitutes a violation of FINRA Rule 2010.

Incorporated NYSE Rule 409(a) provides, in pertinent part, that “[e]xcept with the permission of the Exchange, or as otherwise provided by this paragraph, member organizations shall send to their customers statements of account

showing security and money positions and entries at least quarterly to all accounts having an entry, money or security position during the preceding quarter”

The Firm failed to comply with the books and records requirements of Section 17(a) of the Exchange Act and Rule 17a-3 thereunder due to its (a) failure to maintain complete and accurate customer account records; (b) failure to record TBA transactions on the Firm’s stock record; (c) inconsistencies on the Firm’s stock record as compared to its allocation system; (d) failure to keep accurate records of customer positions in the Affiliate Account; (e) failure to keep accurate records of excess margin securities and securities deficits; and (f) failure to obtain good control locations and related books and records violations.

**1.Failure to Maintain Complete and Accurate
Customer Account Records**

The Firm did not make required notations and disclosures on account statements and lending documents in connection with a securities loan transaction. On May 19, 2010, the Firm borrowed 50,000 fully paid shares of a publicly-traded company from the Foreign Affiliate Account. The Firm, however, failed to (1) include a notation on the Foreign Affiliate Account statement indicating that it owned the shares and the shares were out on loan; and (2) disclose in the Master Loan Agreement with the Foreign Affiliate Account that the provisions of the Securities Investor Protection Act might not protect it with respect to the securities loan transaction.

The Firm also failed to keep certain records in connection with its fixed-income business. First, the Firm’s fixed income platform, which was used to process fixed income transactions, did not reflect the opening and closing balances and the activity in customers’ accounts. Second, the Firm did not maintain a customer ledger that reflected the purchases, sales, receipts and deliveries of securities for fixed income transactions within the customers’ accounts. Third, the Firm did not maintain a customer trial balance that reflected customers’ balances on the fixed income platform.

The Firm’s failure to make the required notations and disclosures in connection with a securities loan transaction and keep required books and records in connection with its fixed income business violated Sections 15(c) and 17(a) of the Exchange Act, Exchange Act Rules 15c3-3(b)(3) and 17a-3, NASD Rule 3110(a) and Incorporated NYSE Rule 409.

**2.Failure to Record on the Firm’s Stock Record TBA
Transactions that had Passed Settlement Date**

RBS did not have a process in place to record TBA transactions promptly on its stock record. As of February 26, 2010, the Firm’s stock record did not reflect TBA transactions with a long market value of approximately \$514 million.

Further, the Firm did not record on its stock record TBA transactions that had passed settlement date dating back to December 14, 2009.

By failing to record on its stock record TBA transactions that had passed settlement date, RBS violated Section 17(a) of the Exchange Act and Rule 17a-3(a)(5), thereunder, NASD Rule 3110(a) and FINRA Rule 2010.

**3. Inconsistencies on the Firm's Stock Record
As Compared to Its Allocation System**

As discussed in Section A.1.a above, the Firm's security position allocation system for its fixed income business incorrectly allocated as "borrowed securities" positions that were listed in the Firm's Fails Reports as a "customer short." The system allocated as "principal sales to customers" positions that were listed in the Fails Reports as "customer long." As a result of these incorrect allocations, the Firm's transactions were incorrectly represented in the reserve formula computation. In addition, the positions on the Firm's stock record did not always match the positions in the Firm's allocation system.

By maintaining a stock record that was inconsistent with its allocation system, the Firm violated Section 17(a) of the Exchange Act and Rule 17a-3 thereunder, NASD Rule 3110(a) and FINRA Rule 2010.

**4. Inaccurate Records of Customer Positions
In an Affiliate Account**

The Firm maintained inaccurate records concerning customer positions in the Affiliate Account. According to the Firm's stock record and customer statements, as of February 26, 2010, the Firm held two customer positions in the Affiliate Account. The stock record and customer statements, however, were inaccurate and the positions were not at the Affiliate Account.

The Firm's failure to accurately record the customer positions of the Affiliate Account violated Section 17(a) of the Exchange Act and Rule 17a-3 thereunder, NASD Rule 3110(a) and FINRA Rule 2010.

F. Failure to Supervise - NASD Rules 3010(a) and (b) and FINRA Rule 2010

NASD Rule 3010(a) requires that members "establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations and with [NASD Conduct] Rules." NASD Rule 3010(b) requires firms to "establish, maintain, and enforce written procedures" that supervise its business and the activities of its associated persons, in order to achieve compliance with applicable securities laws and FINRA rules. A violation of NASD Rule 3010 constitutes a violation of FINRA Rule 2010.

During the Relevant Period, RBS violated NASD Rules 3010(a) and (b) and FINRA Rule 2010 in that it failed to establish and maintain an adequate system to supervise, and written procedures related to, the computation of its customer reserve and net capital calculations, compliance with books and records requirements, and the order marking, locate, close out of fails to deliver and penalty box requirements of Regulation SHO.

1.Net Capital Requirements

On numerous instances between September 2009 and February 2010, RBS's Regulatory Reporting Department did not receive the information necessary to determine capital charges related to reconciling items. Further, RBS used an incorrect methodology to compute capital charges related to repurchase and reverse repurchase agreements. RBS did not have a procedure to determine if overnight repurchase and reverse repurchase agreement contracts were in deficit at the time of origination.

In addition, from February 26, 2010 to June 25, 2010, the Firm did not have a procedure in place to review the daily reconciliations of the Firm's books and records and the agent's contract amount that were provided by a third-party vendor that provided agency lending services to the Firm. Similarly, the Firm did not have a process in place to review the daily comparison of the agent's total loan amount and the underlying principal allocations of the loan. The differences identified in these reconciliations may have resulted in capital charges.

The Firm did not establish systems and procedures that were reasonably designed to achieve compliance with Section 15(c) of the Exchange Act and Rule 15c3-1 thereunder in that it did not have procedures to obtain and review information related to reconciliations of capital charges. The Firm violated NASD Rule 3010 (a) and (b) by failing to establish these systems and procedures.

2.Customer Reserve and Custody Requirements

Between September 2009 and February 2010, the allocation system that RBS used to determine the customer reserve requirement incorrectly represented the underlying security positions. RBS did not implement a procedure to accurately determine its customer reserve requirement until the allocation system was corrected in December 2010.

The Firm did not establish systems and procedures that were reasonably designed to achieve compliance with Section 15(c) of the Exchange Act and Rule 15c3-3 thereunder in that it did not have adequate systems related to reserve formula allocation. The Firm violated NASD Rule 3010 (a) and (b) by failing to establish these systems and procedures.

3. Possession Or Control Requirements

During the Relevant Period, RBS did not have a procedure to identify customers that had accounts on its two back office platforms and to issue segregation instructions of customer positions accordingly. As a result, the Firm's excess margin and deficit position listings were potentially inaccurate because they did not consider the customer positions on both platforms.

The Firm did not establish systems and procedures that were reasonably designed to achieve compliance with Section 15(c) of the Exchange Act and Rule 15c3-3 thereunder in that it did not have adequate procedures regarding segregation instructions for its customer accounts with positions on both of its platforms. The Firm violated NASD Rule 3010 (a) and (b) by failing to establish these systems and procedures.

4. Records Requirements

Between September 2009 and February 2010, RBS did not prepare certain required books and records, such as a customer trial balance and a customer ledger for transactions in fixed income securities. Further, RBS did not have systems in place to produce these records to its regulators. Finally, RBS did not have a process to book TBA transactions on the stock record in a timely manner.

The Firm did not establish systems and procedures that were reasonably designed to achieve compliance with Section 17(a) of Exchange Act and Rule 17a-3(a)(5) thereunder in that it did not have adequate books and records and procedures to timely book TBA transactions on its stock record. The Firm violated NASD Rule 3010 (a) and (b) by failing to establish these systems and procedures.

5. Regulation SHO

a. Rule 204 – Close Out of Fails to Deliver and Penalty Box Requirements

Between September 2009 and February 2010, the Firm failed to have written supervisory procedures regarding the close out of fails to deliver and penalty box requirements of Regulation SHO. In particular, the procedures did not address the requirements set forth in Rule 204 for the monitoring of fails to deliver and the action to be taken to close out these positions. The written supervisory procedures also failed to adequately address the penalty box provisions of Rule 204 with regard to the pre-borrow requirement for short sales when the Firm is in the penalty box.

The Firm did not establish systems and procedures that were reasonably designed to achieve compliance with Regulation SHO in that it did not have adequate procedures regarding the fail to deliver, close-out and penalty box requirements of

Rule 204 of Regulation SHO. The Firm violated NASD Rule 3010 (a) and (b) by failing to establish these systems and procedures.

b. Rule 203(b) – Locate Requirements

Between September 2009 and February 2010, the Firm had an inadequate supervisory review system for monitoring trades for compliance with the locate requirement of Rule 203(b) of Regulation SHO. Specifically, the Firm's order entry system allowed the entry of short sale orders without valid locate information in that the order entry system released a short sale order for execution based upon the entry of any data in the locate field rather than requiring a valid assigned locate number. Further, the Firm's supervisory systems did not provide an adequate post-trade review to identify short sales released for execution without a valid locate, short sales for share amounts in excess of the approved locate amount, and short sale orders released before a locate was approved.

The Firm did not establish systems and procedures that were reasonably designed to achieve compliance with Regulation SHO in that it did not have adequate procedures regarding the locate requirements of Rule 203 of Regulation SHO. The Firm violated NASD Rule 3010 (a) and (b) by failing to establish these systems and procedures.

c. Rule 200(g) – Order Marking Requirements

Between September 2009 and February 23, 2010, the Firm had an inadequate supervisory system to determine that sell orders for the Foreign Affiliate Account were accurately marked "long" or "short" in accord with the requirements of Rule 200(g). During this period, the Firm improperly allowed orders for this customer account to be marked "long" or "short" based on the use of the aggregation unit method. As a result, each of the sell orders for this account was potentially mismarked as long or short due to the improper use of the aggregation unit method during the period of September 2009 through February 23, 2010. Further, for each sell order improperly marked "long," a locate was not obtained as required by Rule 203(b) for the actual "short" sale order.

The Firm did not establish systems and procedures that were reasonably designed to achieve compliance with Regulation SHO in that it did not have adequate procedures regarding the order marking requirements of Rule 200(g) of Regulation SHO. The Firm violated NASD Rule 3010 (a) and (b) by failing to establish these systems and procedures.

By virtue of the conduct described above, the Firm failed to establish and maintain an adequate system to supervise, and written procedures related to, the computation of its customer reserve and net capital calculations, compliance with books and records requirements, and the order marking, locate, close out of fails to deliver and penalty box requirements of Regulation SHO in violation of NASD Rules 3010(a) and (b) and FINRA Rule 2010.

B. RBS consents to the imposition of the following sanctions:

- A censure; and
- a fine of \$475,000.

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

II.

WAIVER OF PROCEDURAL RIGHTS

RBS specifically and voluntarily waive 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, RBS 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.

RBS 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

RBS 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 it; and
- C. If accepted:
 - 1. this AWC will become part of RBS's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the Firm's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. RBS 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. RBS 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 RBS's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. RBS may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. RBS 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 have been given a full opportunity to ask questions about it; that the Firm has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the Firm to submit it.

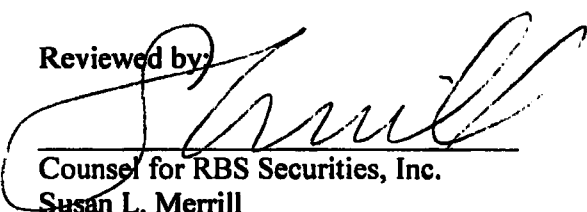
December 18, 2013

Date:

RBS Securities, Inc.

By: _____

Reviewed by:


Counsel for RBS Securities, Inc.

Susan L. Merrill

Sidley Austin LLP

787 Seventh Avenue

New York, NY 10019

Tel: 212-839-8558

Email: smerrill@sidley.com

Accepted by FINRA:

Date

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

Richard R. Best
Chief Counsel
FINRA Department of Enforcement
One World Financial Center
200 Liberty Street, 11th Floor
New York, New York 10281-1003
Tel: 646-315-7308
Fax: 202 689-3424

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December 18, 2013

Date:

RBS Securities, Inc.

By: 
STEVE BROSTOFF
HEAD OF REGULATORY RELATIONS

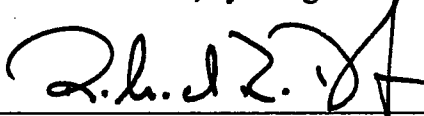
Reviewed by:

Counsel for RBS Securities, Inc.
Susan L. Merrill
Sidley Austin LLP
787 Seventh Avenue
New York, NY 10019
Tel: 212-839-8558
Email: smerrill@sidley.com

Accepted by FINRA:

1.5.13
Date

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


Richard R. Best
Chief Counsel
FINRA Department of Enforcement
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