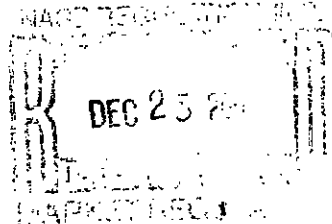


**NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT**

CLG050002

**TO: Market Regulation Department
NASD**

**RE: Charles Schwab & Co., Inc., Respondent
Broker-Dealer
CRD No. 5393**



Pursuant to Rule 9216 of NASD Code of Procedure, Charles Schwab & Co., Inc. ("CHAS" 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 in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against the firm alleging violations based on the same factual findings.

The firm understands that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Department of Market Regulation and National Adjudicatory Council ("NAC") Review Subcommittee or Office of Disciplinary Affairs, pursuant to NASD Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
3. If accepted:
 - a. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against the firm;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about the firm's disciplinary record;
 - c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-2; and

MRD200235729 (KC)
(MRD200340654)
(MRD200445454)

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- d. 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 allegation in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects the firm's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

The firm also understands that its experience in the securities industry and disciplinary history may be factors that will be considered in deciding whether to accept this AWC. That experience and history are as follows:

CHAS has been a member of NASD since October 13, 1970 and its registration remains in effect. It has the following relevant disciplinary history:

- On December 16, 1999, NASD fined CHAS \$1,000 for violations of trade reporting rules, MSRB Rules G-12 and G-14.

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WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Formal Complaint issued specifying the allegations against the firm;
- 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 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 Rule 9143 or the separation of functions prohibitions of 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.

II.

ACCEPTANCE AND CONSENT

This matter arose out of three reviews, MRD200235729, MRD200340654, and MRD200445454 conducted by the staff of NASD's Department of Market Regulation. MRD200235729 and MRD200340654 involve CHAS' compliance with the Order Audit Trail System ("OATS") rules, NASD Marketplace Rule 6950 et seq., during the first quarter of 2002 and the first quarter of 2003, respectively. MRD200445454 involves CHAS' compliance during July and December 2003 with trade reporting rules promulgated by the Municipal Securities Rulemaking Board ("MSRB").

- A. The firm hereby accepts and consents, without admitting or denying the allegations or findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD 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 NASD:
1. During the first quarter of 2002, CHAS submitted to OATS 9,072 reports with respect to equity securities traded on the Nasdaq Stock Market (the "subject reports") that were not in the electronic form prescribed by NASD and were repairable. The subject reports were rejected by the OATS system and notice of such rejection was made available to the firm on the OATS website. CHAS did not correct or replace any of the subject reports.
 2. During the first quarter of 2003, CHAS submitted to OATS 1,684 reports with respect to equity securities traded on the Nasdaq Stock Market (the "subject reports") that were not in the electronic form prescribed by NASD and were repairable. The subject reports were rejected by the OATS system and notice of such rejection was made available to the firm on the OATS website. CHAS did not correct or replace 565 of the subject reports, or 33 percent of the subject reports.

3. The conduct described in paragraphs one and two constitutes separate and distinct violations of NASD Marketplace Rule 6955(a) and a violation of NASD Conduct Rule 2110.
 4. During July and December 2003, CHAS incorrectly reported to the MSRB 720 transactions in municipal securities that had previously been reported to the MSRB. As a result, CHAS over-reported 720 trades during the review periods.
 5. The conduct described in paragraph four constitutes separate and distinct violations of MSRB Rule G-14.
 6. During the periods reviewed, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the Rules of NASD, concerning OATS or MSRB trade reporting. Specifically, the firm's supervisory system did not include written supervisory procedures providing for: (1) identification of the person(s) responsible for supervision with respect to OATS; (2) a statement of the supervisory step(s) to be taken by the identified person(s) with respect to OATS and MSRB trade reporting; (3) a statement as to how often such person(s) should take such step(s) with respect to OATS; and (4) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented with respect to OATS and MSRB trade reporting.
 7. The conduct described in paragraphs six constitutes a violation of NASD Conduct Rules 2110 and 3010, and MSRB Rule G-27.
- B. The firm also consents to the imposition, at a maximum, of the following sanction:

A censure, a fine of \$17,500 (consisting of \$7,500 for the OATS violations, \$3,000 for the MSRB trade reporting violations and \$7,000 for the supervisory violations) and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraph six. Within 30 business days of acceptance of this AWC by the NAC, a registered principal of the Respondent shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a signed, dated letter, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in paragraph six; and, (3) the date the revised procedures were implemented.

The sanction imposed herein shall be effective on a date set by NASD staff.

III.

OTHER MATTERS

- A. The firm understands that it 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 NASD, nor does it reflect the views of NASD or its staff.
- B. The firm agrees to pay any monetary sanctions imposed on it upon notice that this AWC has been accepted and that such payments are due and payable and has attached an Election of Payment form showing the method by which it proposes to pay any fine imposed.
- C. The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

The firm certifies that it has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce the firm to submit it.

12/20/2004
Date

Date

Respondent
Charles Schwab & Co., Inc.

By: X/11/11
Name: Matthew Price
Title: Vice President

Reviewed by:

Counsel for Respondent

Accepted by NASD:

1/30/05
Date

Date

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

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