

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. E0220040352-01

**TO: Department of Enforcement
NASD**

**RE: Chase Investment Services Corporation, Respondent
Member Firm
BD No. 25574**

Pursuant to Rule 9216 of NASD's Code of Procedure, Respondent Chase Investment Services Corporation ("CISC" 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 CISC alleging violations based on the same factual findings.

CISC 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 Enforcement and National Adjudicatory Council ("NAC") Review Subcommittee or Office of Disciplinary Affairs ("ODA"), 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 it; and
3. If accepted:
 - a. this AWC will become part of CISC's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against it;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about CISC's disciplinary records;
 - 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
 - d. CISC 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 CISC's testimonial obligations or right to take legal or factual positions in litigation or other legal proceeding in which NASD is not a party.

CISC 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:

CISC has been an NASD member since 1990. CISC's principal offices are located in Chicago, Illinois. CISC has not been the subject of any prior relevant disciplinary action.

I.

WAIVER OF PROCEDURAL RIGHTS

CISC 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 it;
- 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 ("SEC") and a U.S. Court of Appeals.

Further, CISC 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.

CISC 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

- A. CISC 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:

SUMMARY

1. From at least February 2002 through August 2003 (the "relevant period"), CISC's supervisory and compliance policies, procedures and systems were not reasonably designed with respect to mutual fund market timing activity. The firm, among other things, lacked procedures and failed to take adequate steps relating to the receipt of "block letters" from mutual funds and/or their distributors that placed restrictions on future transactions by market timing customers. Moreover, CISC failed to conduct any follow-up and review to ensure that the terms of the block letters were enforced. Consequently, one of the firm's market timing customers was able to evade transaction limitations imposed by 19 different mutual funds to restrict future trading. By evading the block letter restrictions, that customer earned profits totaling \$140,262 in 13 of those funds.

BACKGROUND

2. Market timing involves the frequent trading of mutual fund shares in order to take advantage of pricing inefficiencies or market movements. Mutual fund market timers seek to take advantage of short-term changes between the price of a fund's shares and the value of its underlying securities. Although market timing is not illegal, *per se*, research suggests that depending on the circumstances it may harm other mutual fund shareholders. For example, market timing may dilute the value of shares, disrupt the management of the mutual fund's investment portfolio, and raise fund transaction costs. Consequently, many funds maintain policies and procedures to detect and prevent market timing. Policies vary from fund to fund, although they often prohibit transactions after a customer has placed a certain number of trades. To this end, once such exchange limits are reached, the funds and/or their distributors generally send notices ("block letters") to the broker-dealer firms for that customer's account(s), noting that they will no longer accept exchange transactions.
3. PSSF, a hedge fund and one of the firm's customers, engaged in market-timing transactions in several different mutual funds. At various times, CISC and the customer received notices from 19 different mutual funds blocking future fund transactions. PSSF, however, was able to evade those restrictions and engage in 81 additional mutual fund transactions. As a result, PSSF realized profits of \$140,262 in 13 of the funds.

SUPERVISORY VIOLATIONS

4. During the relevant period, CISC's supervisory and compliance policies, procedures and systems were not reasonably designed with respect to mutual fund market timing activity. Specifically, CISC failed to maintain, update and enforce effective internal policies, systems and procedures in, among other things, the following respects:

- The firm lacked procedures and failed to take adequate steps relating to the block letters it received from mutual funds and/or their distributors that placed restrictions on future transactions by market timing customers. Further, The firm failed to conduct any follow-up and review to ensure that the terms of the block letters were enforced.
 - The firm lacked an adequate supervisory system to prevent and detect customers circumventing the block letter restrictions. Although CISC received the relevant block letters, in a couple of instances, it failed to prevent PSSF from effecting further trades in contravention of the restrictions. Moreover, the firm permitted PSSF to establish new accounts and continue trading in funds that had previously issued letters blocking further transactions.
 - The firm lacked written supervisory procedures relevant to mutual fund market timing activity.
5. The aforementioned conduct constitutes separate and distinct violations of NASD Conduct Rules 3010 and 2110 by CISC.

B. CISC also consents to the imposition, at a maximum, of the following sanctions:

1. A censure;
2. A fine in the amount of \$150,000; and
3. Within 30 days of the issuance of this AWC, CISC shall pay \$140,262, in the amounts listed below, to compensate the affected mutual funds for losses sustained during the relevant period because of the aforementioned market timing activity by one of its customers. CISC shall apportion the \$140,262 among the funds as follows:
 - Managers International Equity (MGITX) - \$20,611.12
 - T. Rowe Price European Stock (PRESX) - \$4,784.02
 - CDC IXIS International Equity Y (LSIEX) - \$1,000
 - American Funds Intm Bd Fd of Amer F (IBFFX) - \$1,396.44
 - American Funds Capital World G/I F (CWGFX) - \$51,328.39
 - JP Morgan Fleming International Val I (JNUSX) - \$6,410.80
 - JP Morgan Disciplined Equity Instl (JPIEX) - \$2,792.35

- JP Morgan Fleming Emerging Mkts Instl (JMIEX) - \$3,702.57
- SEI Daily Income Ultra Short Bond A (SECPX) - \$278.47
- SEI Instl Mgd Core Fixed-Income A (TRLVX) - \$1,138.52
- TIAA-CREF International Equity (TIINX) - \$6,608.91
- Vanguard Admiral Fund Treasury (VUSXX) - \$2,043.72
- Vanguard Long-Term Tax-Exempt (VWLTX) - \$38,166.65

In addition, CISC shall comply with the following undertakings within the time periods specified below (unless otherwise extended by NASD staff):

1. Certification of Payment to Mutual Funds

- a. Within 30 days of the issuance of this AWC, CISC shall pay \$140,262 to compensate the fund companies for the amounts listed in paragraph B.3.
- b. Within 90 days of the issuance of this AWC, an officer of CISC shall certify to NASD that payments to the affected mutual funds in the amounts listed at paragraph B.3. above, have been made, and will include copies of cancelled checks or similar documents evidencing such payments.

2. Market Timing Certifications

- a. CISC has made a thorough review of the trading that occurred at the firm during the relevant period to detect any and all instances of its customers evading mutual fund block letter restrictions. Upon submission of this AWC, an officer of CISC shall certify to NASD in writing that, with respect to the relevant period, and to the best of CISC's knowledge based upon reasonable inquiry, CISC has disclosed to NASD all transactions that contravened mutual fund block letter restrictions.
- b. Within 90 days after issuance of the AWC, an officer of CISC shall certify to NASD that the firm has reviewed its procedures regarding market timing and has systems and procedures in place that are reasonably designed to ensure that block letter restrictions are enforced.

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

III.

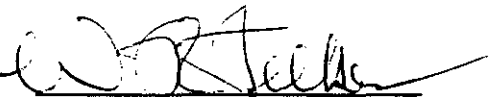
OTHER MATTERS

- A. CISC 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. CISC 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. CISC agrees to pay any monetary sanctions imposed on it within 30 days of its receipt of notice that this AWC has been accepted and that such payments are due and payable and have attached an Election of Payment form showing the method by which it proposes to pay any fine imposed.
- C. CISC 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 undersigned certifies on behalf of CISC that I have read and understand all of the provisions of this AWC and have 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 CISC to submit it.

Chase Investment Services Corporation

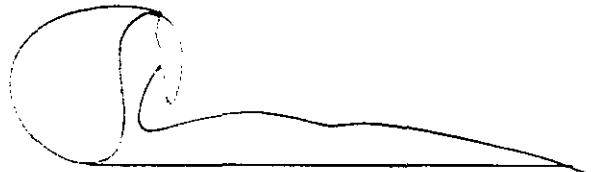
8/10/05
Date

By: 

Name: W.R. Felker, its President/CEO

Accepted by NASD:

12/12/05
Date


Lani M. Sen Woltmann, Director
Signed on behalf of the Director of
ODA, by delegated authority