

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. E1020040161-01

TO: Department of Enforcement
NASD

RE: First Republic Group, LLC, Respondent
Member Firm
BD No. 39781

Pursuant to Rule 9216 of NASD Code of Procedure, First Republic Group, LLC ("First Republic" 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 First Republic, alleging violations based on the same factual findings.

First Republic 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 First Republic; 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 it;
 - 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
 - d. First Republic 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. 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.

First Republic also understands that the Firm's 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:

First Republic has been a member of NASD since August 12, 1996. The Firm's main office is located in New York, New York.

First Republic has had no relevant disciplinary history with the Securities and Exchange Commission, any self-regulatory organization or any state securities regulator within the past five years.

I.

WAIVER OF PROCEDURAL RIGHTS

First Republic 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 and a U.S. Court of Appeals.

Further, First Republic 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

- A. First Republic 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 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:

TRACE Reporting Violations

1. During the period from on or about April 1, 2005 through May 28, 2005, First Republic failed to timely report to Trade Reporting and Compliance Engine ("TRACE") 33 (or 38.8%) of its 85 TRACE-eligible customer transactions. Additionally, during the period from on or about July 1, 2005 through August 31, 2005, First Republic failed to timely report to TRACE 118 (or 43.8%) of its 270 TRACE-eligible customer transactions.
2. The conduct described in paragraph "1" constitutes separate and distinct violations of NASD Marketplace Rule 6230(a) and NASD Conduct Rule 2110.
3. Out of a random sample of 52 TRACE-eligible customer transactions reported to TRACE during the period June 1, 2004 through August 31, 2004, First Republic, in 11 instances, inaccurately reported the execution time, and in 9 instances, inaccurately reported the yield.
4. The conduct described in paragraph "3" constitutes separate and distinct violations of NASD Marketplace Rule 6230(c).

Deficient Supervisory System and Procedures Regarding TRACE Reporting

5. During the period from on or about April 1, 2005 through August 31, 2005, First Republic's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to TRACE reporting. Indeed, First Republic failed to establish any written supervisory procedures regarding TRACE reporting until December 2005.

6. The conduct described in paragraph "5" constitutes a violation of NASD Conduct Rules 2110 and 3010.

Failure to Preserve Electronic Mail Records

7. During the period September 1, 2002 through September 1, 2004, at least eight of First Republic's associated persons sent and received electronic mail communications relating to the Firm's business, including internal electronic communications relating to job applications, financial filings and compliance issues and Firm external electronic communications with the Firm's clearing firm, regulators and vendors.
8. During the above time period, the firm failed to preserve copies of all electronic mail communications for three years, and/or maintain electronic mail communications for the first two years in an accessible place, as required by Section 17(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 17a-4 thereunder.
9. The conduct described in paragraph "8" constitutes a violation of Section 17(a) of the Exchange Act, Rule 17a-4 thereunder, and NASD Conduct Rules 2110 and 3110.

***Deficient Supervisory System and Procedures
Regarding Retention of Electronic Mail***

10. Moreover, the Firm did not have adequate systems or procedures in place during the relevant period reasonably designed to retain and/or make accessible electronic communications to achieve compliance with Section 17(a) of the Exchange Act, Rule 17a-4 thereunder and NASD Rule 3110. In fact, the firm had no formal electronic communication retention system in place until March 2005.
11. The conduct described in paragraph "10" constitutes a violation of NASD Conduct Rules 2110 and 3010.

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

1. A censure; and
2. A fine of \$85,000.

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

III.

OTHER MATTERS

- A. First Republic 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 the Firm 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.

First Republic 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 First Republic to submit it.

06/05/06

Date

First Republic Group, LLC, Respondent

By: D. Grant Morgan on behalf of First Republic Group, LLC
D. Grant Morgan
SR. MANAGING DIRECTOR
[Name and title]

Reviewed by:

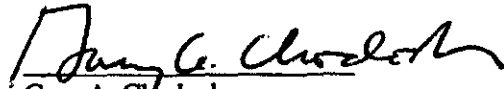
Bob E. Lehman

Bob E. Lehman, Esq.
Lehman & Eilen LLP
Counsel for Respondent
50 Charles Lindbergh Boulevard, Suite 505
Uniondale, NY 11553-3600
Tel.: (516) 222-0888

Accepted by NASD:

July 19, 2006
Date

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



Gary A. Chodosh
Regional Counsel
NASD Department of Enforcement
One Liberty Plaza
New York, New York 10006
(212) 858-4771

NASD District Director
Hans Reich
NASD, District 10
One Liberty Plaza
New York, New York 10006
(212) 858-4180