

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. E1120050140

TO: Department of Enforcement
NASD

RE: CCO Investment Services Corp. f/k/a Citizens Investment Services Corp.
BD No. 39550

Pursuant to Rule 9216 of NASD Code of Procedure, we submit 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 us alleging violations based on the same factual findings.

We understand 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 us; and
3. If accepted:
 - a. this AWC will become part of our permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against us;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about our 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. we 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 our testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

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We also understand that our 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:

CCO Investment Services Corp. ("CCO") (BD No. 39550), located in Providence, Rhode Island, has been an NASD member since May 8, 1996, and also is registered with the Municipal Securities Rulemaking Board. Prior to February 4, 2005, CCO was known as Citizens Investment Services Corp. CCO is a wholly-owned subsidiary of Citizens Bank of Rhode Island, which is a wholly-owned subsidiary of Citizens Financial Group, Inc., which is a wholly-owned subsidiary of the Royal Bank of Scotland plc. CCO distributes and sells mutual funds and provides certain securities, brokerage and investment advisory services primarily to retail customers. The firm has no prior NASD disciplinary history.

I.

WAIVER OF PROCEDURAL RIGHTS

We specifically and voluntarily waive the following rights granted under NASD's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against us;
- 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, we specifically and voluntarily waive any right to claim bias or prejudice 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.

We further specifically and voluntarily waive 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. We hereby accept and consent, 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:

SUMMARY

During the period beginning from October 25, 2003 through March 29, 2005 (the "relevant period"), CCO failed to establish, maintain and enforce a supervisory system and written procedures that were reasonably designed to achieve compliance with NASD rules and federal securities laws and regulations relating to customer suitability reviews, telemarketing, internal inspections, pre-registration Web CRD searches, review of written correspondence, registration of offices, and review and approval of fund-direct 529 Plan business.

CCO also violated recordkeeping rules relating to electronic communications, non-cash compensation, general ledger and trial balance, and filed inaccurate FOCUS reports. Moreover, in violation of the telemarketing rules, the firm did not make proper use of the National Do-Not-Call list. CCO also failed to have written consent, or lacked the required documentation, in connection with 239 pre-registration Web CRD searches. Furthermore, the firm allowed certain of the checks from variable annuity customers in Massachusetts to be deposited into an account of its insurance affiliate, which is not a registered broker-dealer, before forwarding the funds to the issuer.

SUPERVISORY DEFICIENCIES

During the relevant period, the firm failed to establish, maintain and enforce a supervisory system and written procedures that were reasonably designed to achieve compliance with the rules and regulations applicable to the following areas:

1. Suitability of Customer Transactions

CCO's suitability reviews of variable annuity contract sales were not reasonably designed to prevent and detect sales practice violations. For example, although CCO utilized surveillance reports and its operations personnel reviewed variable annuity applications before the completion of the transaction, the firm sometimes failed to provide for reasonable follow-up and review to ensure that noted exceptions were adequately addressed. Moreover, although the firm had some policies related to variable annuity sales to elderly clients, the firm failed to provide for reasonable follow-up and review to ensure that those policies were implemented.

Moreover, to the extent that it had customer suitability review procedures, the firm did not consistently enforce those procedures. For example, CCO created a "Financial Profile" form that, starting on March 1, 2001, had to be used by

registered representatives in order to promote consistency in the types of questions customers needed to be asked before conducting business. CCO introduced the form to its registered representatives through a February 15, 2001 Compliance Update, which contained concise and explicit instructions on how to use the form. The form was not intended to replace suitability information documentation, which was already being captured on customer new account forms and order tickets. Through a April 5, 2002 Compliance Update, CCO reminded its representatives that the Financial Profile was required for all client files. In April 2002, CCO introduced another form, the Forecaster, to provide registered representatives with another option for capturing client information. Representatives could use either form depending on their personal preference.

CCO, however, failed to enforce its written procedures requiring that registered representatives complete either the Financial Profile form or the Forecaster when capturing customer information. As a result, customer information that would assist registered persons and the firm in assessing suitability was inconsistently available.

2. Telemarketing/Cold Calling

CCO used telemarketing to generate referrals to CCO from existing firm customers and affiliated bank customers. Throughout the relevant period, telephone calls were made by both CCO registered representatives and affiliated bank employees during call nights. Affiliated bank employees, who were not registered representatives, were required to use pre-approved scripts and were not allowed to discuss specific financial products with customers.

The firm's procedures further required that: a principal provide training on what could be discussed with the firm's affiliated bank customers; divisional sales managers or field sales managers attend call nights on a random basis; and each office maintain telemarketing files documenting that these procedures were followed.

Other than the review of files during a branch audit, however, the firm had no supervisory system or written procedures on how to monitor compliance with the policies and procedures noted above. For example, the firm did not maintain a centralized list of call nights, or other reasonable way of tracking the call nights, in order to assist the compliance department conducting audits with the telemarketing file requirements or other requirements listed above.

3. Internal Inspections

NASD Conduct Rule 3010(c) requires that each member review the activities of each office, and, with respect to branch offices, inspect those offices according to a cycle set forth in the firm's written supervisory procedures. The firm's written supervisory procedures required that each of the firm's offices (registered and non-registered) at least annually. CCO, however, failed to conduct annual internal inspections of all its offices.

CCO also lacked a reasonable system and procedures to ensure that certain required inspections were scheduled and conducted; that inspections that were

conducted covered all persons at the location; that inspections were conducted consistently; and that noted deficiencies in audits were addressed.

4. Pre-Registration Web CRD Searches

NASD's Central Registration Depository ("Web CRD") permits member firms to perform a pre-registration search on individuals. A member firm, however, must first obtain the written consent of the individual and then affirm the following statement on Web CRD:

By selecting this option, I acknowledge that I am considering this person for registration or assignment to responsibilities subject to federal law or SEC rules governing statutory disqualification and have obtained and will keep on file this person's written consent to review his/her CRD record for that purpose.

The firm's supervisory system and written procedures were not reasonably designed to ensure that the required written consent was obtained before any pre-registration searches on Web CRD and that the firm retained the required documentation.

5. Review of Correspondence

NASD Conduct Rule 3010(d) requires members to review and approval all incoming and outgoing written correspondence. CCO's written supervisory procedures required that review of all correspondence to ensure approval by an appropriate principal. In addition, the firm's procedures required that the regional sales managers check all incoming correspondence for compliance issues.

CCO failed to enforce these procedures consistently. For example, firm principals did not review and approve all correspondence. Moreover, CCO failed to have a reasonable system of reviewing and documenting that review of correspondence, particularly correspondence that was deemed to be "routine." CCO reviewed correspondence files during internal inspections, but the firm did not require documentation of that review. Moreover, the internal inspection reviews did not necessarily include all correspondence.

6. Registration of Offices of Supervisory Jurisdiction

NASD Conduct Rule 3010 requires that members designate as an Office of Supervisory Jurisdiction ("OSJ") each location that, among other things, has responsibility for supervising the activities of persons associated with the member at one or more other branch offices of that member. CCO failed to register at least 66 branch offices as OSJs that had those responsibilities. In addition, the firm failed to identify all of their OSJ addresses in their written supervisory procedures.

The conduct set forth in sections 1-6 above constituted separate and distinct violations of NASD Conduct Rules 3010 and 2110.

7. Review of Customer Fund-Direct 529 Plan Business

The firm's supervisory system and procedures required that all customer transactions, including 529 Plan transactions, be reviewed and approved by a principal. This, however, did not occur in all instances for fund-direct 529 Plan transactions. With respect to those transactions, CCO relied primarily on commission reports that provided inadequate and untimely information to assess the suitability of 529 Plan transactions. The firm also relied on a random sample of transactions, including 529 Plan transactions, that occurred only during internal inspections, which, as noted above, did not even necessarily occur. This approach failed to capture sufficient information to assess the suitability of fund-direct 529 Plan business conducted by the firm's registered representatives. This conduct constituted separate and distinct violations of MSRB Rule G-27.

RECORDKEEPING AND REPORTING

1. Electronic Communications

Rule 17a-4, promulgated under the Securities Exchange Act of 1934 ("Exchange Act"), requires that brokerage firms maintain and preserve, for a period of not less than three (3) years, electronic communications relating to the firm's business as a broker-dealer. In Notice to Members 01-80 and 03-33, NASD communicated to members their recordkeeping and supervisory obligations with respect to electronic communications, including e-mail.

From July 1, 2002 through July 9, 2004, CCO copied electronic communications on to back-up tapes, but then recycled those tapes, overwriting them with new data after sixty (60) days. Moreover, until October 2004, electronic communications that were emptied from a deleted e-mail folder were not even captured on the back-up tapes. Beginning in October 2004, CCO implemented a new electronic e-mail retention and retrieval system. Until October 2005, however, the firm failed to ensure that all of its registered persons were placed on the appropriate servers in order to capture their electronic communications. As a result, from July 2002 through October 2005, the firm did not maintain and preserve all electronic communications as required by Exchange Act Rule 17a-4. This conduct constituted separate and distinct violations of Exchange Act Rule 17a-4 and NASD Conduct Rules 3110 and 2110.

2. Non-Cash Compensation Recordkeeping

With certain limited exceptions, NASD Conduct Rules 2820(g) and 2830(l) require members, in connection with the sale and distribution of variable contracts and investment company securities, respectively, to maintain records of all compensation received by the member or its associated persons from offerors. The records must include the names of the offerors, the names of the associated persons, the amount of cash, the nature and, if known, the value of non-cash compensation received. During the relevant period, CCO failed to maintain records of all compensation received by its associated persons from offerors. This conduct constituted separate and distinct violations of NASD Conduct Rules 2820, 2830, and 2110.

3. Inaccurate Books and Records (General Ledger and Trial Balance)

During the relevant period, the firm included, as an allowable asset, cash in the name of its insurance affiliate. CCO, however, should have treated that asset as non-allowable. As a result, the firm maintained inaccurate general ledger and trial balances. This conduct constituted separate and distinct violations of Exchange Act Rule 17a-3 and NASD Conduct Rule 2110.

4. Inaccurate FOCUS Reports

During the relevant period, CCO, due to the inaccurate treatment of certain cash in the name of its insurance affiliate as an allowable asset, filed inaccurate FOCUS Reports. This conduct constituted separate and distinct violations of Section 17(a) of the Exchange Act, Rule 17a-5 thereunder, and NASD Conduct Rule 2110.

TELEMARKETING (DO-NOT-CALL LIST)

NASD Conduct Rule 2212, among other things, prohibits members and their associated persons from initiating any telephone solicitation to any person who has registered his or her telephone number on the Federal Trade Commission's national do-not-call registry (the "NDNC list"). During the relevant period, however, CCO failed to implement procedures to comply with this rule. For example, the firm did not refer to the NDNC list in connection with its telemarketing efforts to customers of its parent bank and others. In calling customers of its parent bank, CCO could not rely on the established business relationship exception provided by NASD Conduct Rule 2212(b)(1). This conduct constituted separate and distinct violations of NASD Conduct Rules 2212(d) and 2110.

PRE-REGISTRATION WEB CRD SEARCHES

During the relevant period, CCO failed to obtain the required written consent, or lacked the required documentation, in connection with 239 of its pre-registration Web CRD searches. This conduct constituted separate and distinct violations of NASD Conduct Rule 2110.

DEPOSIT OF CUSTOMER FUNDS WITH AN UNREGISTERED INSURANCE AFFILIATE

From January 2005 through October 2005, CCO established an account with its insurance affiliate, which is not a registered broker-dealer, to accept checks on behalf of CCO's Massachusetts customers who purchased variable annuity contracts. Although CCO registered representatives sold the variable annuity contracts, the firm deposited the customer funds associated with those transactions into an account of the unregistered insurance affiliate. Thereafter, the unregistered insurance affiliate forwarded the customer funds directly to the issuer. This conduct constituted separate and distinct violations of NASD Conduct Rule 2110.

B. We also consent to the imposition, at a maximum, of the following sanctions:

- a censure; and
- a fine in the amount of \$850,000.

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

- 1) CCO shall undertake to review its supervisory system and procedures concerning preservation of electronic communications, customer suitability reviews, telemarketing, internal inspections, pre-registration Web CRD searches, review of written correspondence, registration of offices, and review of customer fund-direct 529 Plan business for compliance with NASD rules and the federal securities laws and regulations. CCO shall also undertake a review of the resources employed by the firm, assess the adequacy of such resources, and make written recommendations concerning its resource needs in order to comply with the laws, regulations and rules concerning those areas.
- 2) Within 60 calendar days of the issuance of this AWC, an officer of CCO will certify to NASD in writing that it has completed its review, implemented necessary revisions to its supervisory system and written procedures, employed adequate staffing and resources, and has established systems and procedures, reasonably designed to achieve compliance with those laws, regulations, and rules concerning the areas listed above. CCO's certification shall also describe the specific actions taken by the firm, including the systems and procedures developed and implemented, that are reasonably designed to achieve future compliance with those requirements.
- 3) The certification, along with the updated procedures, must be submitted to NASD's Boston District Office staff. Although NASD staff may review the revised procedures, said review shall in no way constitute an approval of the revised procedures. The failure of NASD staff to alert CCO to any deficiencies in the revised procedures shall not preclude NASD from instituting a subsequent disciplinary action as a result of deficiencies in the revised procedures.

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

III.

OTHER MATTERS

- A. We understand that we may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. We understand that we may not deny the charges or make any statement that is

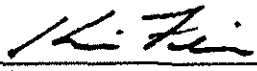
inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD or its staff.

- B. We agree to pay any monetary sanctions imposed on us upon 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 we propose to pay any fine imposed.
- C. We specifically and voluntarily waive any right to claim that we are unable to pay, now or at any time hereafter any monetary sanction imposed in this matter.

We certify that we 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 us to submit it.

Date: August 24, 2006

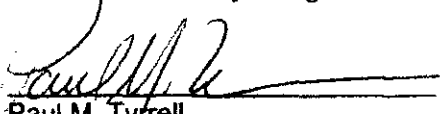
CCO Investment Services Corp.

By:  Kevin L. Fein
Title: Senior Vice President
Chief Compliance Officer

Accepted by NASD:

Oct. 16, 2006
Date

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


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STATEMENT OF CORRECTIVE ACTION

CCO Investment Services Corp. ("CCO") submits the following Statement of Corrective Action taken with respect to the matters discussed in the AWC. This Corrective Action Statement is submitted by the Respondent. It does not constitute factual or legal findings by the NASD, nor does it reflect the views of NASD, or its staff.

CCO take its regulatory obligations very seriously and as detailed below has taken prompt, effective steps to address issues relating to the matters discussed in the AWC.

Supervisory Systems and Procedures

1. Suitability of Customer Transactions.
 - a. CCO instituted new policies and procedures that provide for enhanced suitability review of variable annuity sales to customers. For example, CCO's written supervisory procedures have been revised to include more specific variable annuity suitability guidelines with respect to factors such as customer net worth, liquid assets, and investment time horizon. These enhanced guidelines are used by Financial Consultants at the point of sale, and also by CCO's registered principals who must review and pre-approve any variable annuity sale.
 - b. CCO also revised its procedures to include a daily review by designated compliance officers of a sample of variable annuity sales, as well as specific procedures for follow-up on any noted exceptions.
 - c. Since August 12, 2005, CCO has prohibited sales of variable annuities to individuals 75 years and older. Variable annuity sales to customers 65 years and above require heightened pre-transaction review by a registered principal, including a call out to the customer by the principal.
 - d. As noted in the AWC, since 2001 CCO Financial Consultants have used "Financial Profiles" or "Factfinders" to gather additional suitability information about customers that goes beyond the essential suitability information that is captured on new account forms and order tickets. CCO has revised its policies and procedures to require that the Factfinder be completed and submitted as part of the required new account documentation for all variable annuity sales.

2. CCO revised its written supervisory procedures to require the appropriate supervisor to be notified in advance of any telemarketing event. CCO also adopted a general prohibition on cold calling to individuals who are not customers of CCO. The revised procedures also specify which telemarketing-related documents must be maintained by Financial Consultants, and provide for supervisory review of telemarketing files during periodic branch audits. CCO also requires training regarding telemarketing to occur in advance of any telemarketing event, to ensure that personnel making telephone calls to customers are aware of the limits on what they can say and the use of approved scripts. Finally, all applicable do-not-call lists must be reviewed before any calls are made.
3. CCO's written supervisory procedures require an annual audit of all branch offices by the Compliance Division. CCO has revised its procedures to require submission to the Chief Compliance Officer of an annual audit plan setting forth the date that each branch will be audited that year.
4. CCO reinforced its policy prohibiting unauthorized CRD searches and has restricted access to CRD to designated members of its Compliance Division. Under CCO's written procedures, CCO is required to obtain prior written consent of any individual whose CRD record is searched.
5. CCO revised its written supervisory procedures to provide for review by a supervisor of all in-coming and out-going correspondence, and to provide for documentation of that review to ensure that it is conducted.
6. CCO has revised its written supervisory procedures to include criteria for identifying Offices of Supervisory Jurisdiction ("OSJ"), to ensure that all OSJs are registered on the Firm's Form BD.
7. CCO has adopted new procedures designed to ensure that all 529 Plan business is reviewed and approved by a CCO principal, as required by CCO's written supervisory procedures. CCO has also adopted procedures to verify that no 529 Plan business has been sent directly to a fund without approval.

Recordkeeping and Reporting.

1. CCO has made extensive improvements to its email retention and retrieval systems. In October 2004, it implemented a new electronic email retention and retrieval system that is designed to preserve all email. In September 2005, CCO implemented new supervisory procedures to ensure that all of its registered persons are placed on the appropriate servers in order to capture their electronic communications.
2. CCO revised its written supervisory procedures to require all of its associated persons to attest in writing, on a quarterly basis, that they have

complied with CCO's gifts and gratuities policies, and to provide information as to any non-cash compensation received or given during the quarter. CCO uses an automated program to ensure that each Financial Consultant makes the required report on a quarterly basis.

3. To the extent that CCO includes any assets held by its consolidated and wholly-owned subsidiary in its net capital computation in the future, CCO will obtain the required opinion of counsel with respect to such assets and renew that opinion on an annual basis as necessary.

Processing of Variable Annuity Checks Through Insurance Affiliate

1. CCO deposited checks from variable annuity purchasers into an overnight account in the name of its insurance affiliate and then forwarded the funds to the variable annuity issuer. As of October 26, 2005, when advised by the NASD that it objected to this practice, CCO has ceased this practice.