

NASD

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

James A. Parrelly,
CRD No. 728368

Respondent.

Disciplinary Proceeding
No. E8A2003033801

Hearing Officer - AHP

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: December 11, 2006

INTRODUCTION

Disciplinary Proceeding No. E8A2003033801 was filed on October 13, 2006, by the Department of Enforcement of NASD ("Complainant"). Respondent James A. Parrelly submitted an Offer of Settlement ("Offer") to Complainant on April 3, 2006. Pursuant to Code of Procedure Rule 9270(e), the Complainant and the National Adjudicatory Council ("NAC") Review Subcommittee or the Office of Disciplinary Affairs ("ODA") have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to Code of Procedure Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Respondent has consented, without admitting or denying the allegations of the Amended Complaint, 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, to the entry of

findings and violations consistent with the allegations of the Complaint, and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by NASD.

BACKGROUND

Between February 2001 and December 2002, Respondent was registered as a General Securities Representative with Spelman & Co., Inc. ("Member"), a member of NASD. Respondent is currently registered with another NASD member. Respondent has no prior disciplinary history.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:

1. Between approximately March 2001 and October 11, 2002 (the, "Relevant Period"), Parrelly recommended and effected transactions in Class B shares of certain mutual funds for public customer C.C., without having reasonable grounds for believing that the resultant transactions were suitable for the customer, who was a retired, elderly widow with extremely limited securities experience. Under the circumstances, customer C.C. would have financially benefited from owning Class A shares in the identical funds, regardless of how long customer C.C. held the funds. The unsuitable trading, identified in Exhibit A, which is attached hereto and made a part hereof by reference, consisted of the following acts:

- a. During the Relevant Period, Parrelly recommended and sold to customer C.C. more than \$1.2 million of Class B shares in the Federated Family of Funds ("Federated Funds"). At the time of such recommendations, Parrelly knew or should have known that customer C.C. already owned shares in Federated Funds valued at more than \$765,000. Under the

circumstances, during the Relevant Period customer C.C. could have purchased Class A shares of the additional Federated Funds and received substantial breakpoints associated with any front-end load, or initial sales charge she may have had to pay for the Class A shares, if not a complete waiver of any front-end load, through which customer C.C. could have purchased Class A shares at net asset value (“NAV”). By purchasing Class A shares under the circumstances, customer C.C., would have paid substantially lower annual fees and expenses for as long as she held such shares, and would not have been subjected to any contingent deferred sales charges (“CDSCs”) associated with the Class B shares she purchased. Consequently, regardless of customer C.C.’s intended holding period, Customer C.C. would have financially benefited from owning Class A shares, instead of Class B shares of the Federated Funds she purchased during the Relevant Period. Parrelly also earned more commissions from selling the relevant Class B shares, instead of Class A shares.

b. During the Relevant Period, Parrelly also recommended that customer C.C. sell certain of her Class B shares of Federated Funds, only to thereafter recommend that customer C.C. purchase additional Class B shares of Federated Funds. Consequently, customer C.C. was subjected to CDSCs associated with the sales of such funds, as well as a new CDSC period associated with the new Class B share purchases. Under the circumstances, Parrelly should have recommended that customer C.C. purchase Class A shares of such funds or, at the very least, could have recommended that customer C.C. “exchange” certain of his Federated Funds for different Federated Funds, which could have been effected at no additional cost or consequence to customer C.C.

c. During the relevant period, Parrelly also engaged in short-term trading of Class B shares in the Munder Family of Funds. Parrelly recommended that customer C.C. purchase Class B shares in the Munder Family of Funds, only to thereafter recommend the sale of the same Class

B shares in the Munder Family of Funds within one year of the initial purchase. Consequently, customer C.C. paid a significant CDSC (5%) in connection with such sale. Under the circumstances, and in light of customer C.C.'s possible short-term investment horizon, customer C.C. would have been financially benefited from owning Class C shares in the identical Munder Funds, instead of Class B shares.

d. During the relevant period, Respondent recommended that customer C.C. use cash distributions from mutual fund positions to purchase additional shares of the same fund, generating new commissionable sales instead of reinvesting the shares with the fund group.

2. Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 2110 and 2310 and IM-2310-2.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future misconduct, and represent a proper discharge by NASD, of its regulatory responsibility under the Securities Exchange Act of 1934.

<remainder of page intentionally left blank>

SANCTIONS

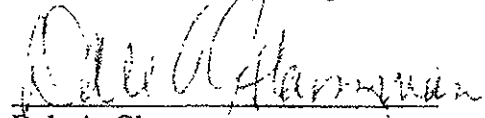
It is ordered that Respondent be suspended for twenty (20) calendar days from association with any member of the NASD in any capacity, fined \$5,000.00, and an ordered to pay customer C.C. the amount agreed upon between C.C. and Respondent pursuant to their written agreement dated November 7, 2005, to wit: \$1,375 commencing February 20, 2006, and continuing on or before the 20th day of each month thereafter until a total of \$82,500 has been paid. Satisfactory proof of the payments to C.C., as provided above, shall be provided to NASD staff each month.

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

SO ORDERED.

NASD

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



Dale A. Glanzman
Regional Counsel
NASD Department of Enforcement
55 W. Monroe Street, Suite 2700
Chicago, IL 60603
(312)899-4312
Fax: (312)899-4600