BEFORE THE NATIONAL ADJUDICATORY COUNCIL

FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of the Association of X[1] as a General Securities Representative with The Sponsoring Firm	Redacted Decision Notice Pursuant to Rule 19h-1 Securities Exchange Act of 1934 SD12003 Date: 2012

I. Introduction

On January 26, 2010, the Sponsoring Firm filed a Membership Continuance Application ("MC-400" or "the Application") with FINRA's Department of Registration and Disclosure, seeking to permit X, a person subject to a statutory disqualification, to associate with the Sponsoring Firm as a general securities representative. In September 2011, a subcommittee of FINRA's Statutory Disqualification Committee ("the Hearing Panel") held a hearing on the matter. X appeared at the hearing, accompanied by his attorney, Attorney 1, X's proposed primary supervisor, the Proposed Supervisor, and the Sponsoring Firm's founder and president, Firm Employee 1. FINRA Employee 1, FINRA Attorney 1,FINRA Attorney 2, and FINRA Director 1 appeared on behalf of FINRA's Department of Member Regulation ("Member Regulation").

For the reasons explained below, we approve the Application.[2]

II. The Statutorily Disqualifying Event

X is statutorily disqualified due to a 2008 consent order issued by the State 1 Securities Division, in which the state found that X violated Chapter 110A, Section 101 of the General

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[1] The names of the statutorily disqualified individual, the Sponsoring Firm, the Proposed Supervisors and other information deemed reasonably necessary to maintain confidentiality have been redacted.

[2] Pursuant to FINRA Rule 9524(a)(10), the Hearing Panel submitted its written recommendation to the Statutory Disqualification Committee. The Statutory Disqualification Committee considered the Hearing Panel's recommendation and presented a written recommendation to the National Adjudicatory Council.

Laws of State 1.[3] The State 1 consent order suspended X from registering with the state for six months and fined him $10,000.[4]

The State 1 consent order involved X's sales of collateralized debt obligations ("CDOs") to City 1, State 1. Between November 2006 and January 2007, City 1 opened three accounts at Firm 1, for which X and another registered representative acted as representatives of record. The City 1 city manager identified the city's investment objective as conservative. X recommended that the city purchase CDOs through a Firm 1-sponsored auction rate securities market. In March and April 2007, X purchased three CDOs for the city, which State 1 found were not suitable investments.

The state found that X failed to: review the prospectuses for the CDOs before the purchases; provide the prospectuses to the city manager; learn of and disclose the risks associated with the CDOs to the city manager; and advise the city manager of Firm 1's affiliation with the issuer. Finally, State 1 found that X exercised discretion in the City 1 accounts without written authority to do so. As a result of the State 1 consent order, Firm 1 terminated X for cause in February 2008.

In the Application, X stated that Firm 1 promoted its auction market to its brokers as offering safe, liquid, short-term investments suitable for municipal accounts. X stated that he relied on Firm 1's representations to its brokers in selling these securities to City 1. State 1 subsequently brought an action against Firm 1 for the manner in which it conducted its auction rate securities business and for creating and implementing a sales and marketing scheme that significantly misstated the nature of auction rate securities and the stability of the auction market.

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[3] Section 604 of the Sarbanes-Oxley Act expanded the definition of statutory disqualification in Section 3(a)(39) of the Securities Exchange Act of 1934 ("Exchange Act") by creating and incorporating Exchange Act Section 15(b)(4)(H) so as to include persons that are subject to any final order of a state securities commission or state authority that supervises or examines banks that (i) "Bars such a person from association with an entity regulated by such commission," or (ii) "Constitutes a final order based on violations of any laws or regulations that prohibit fraudulent, manipulative or deceptive conduct." *FINRA Regulatory Notice 09-19*, 2009 FINRA LEXIS 52, at *5 (April 2009); *see Membership Continuance Application of Firm A*, Application No. 20090173549, 2010 FINRA Discip. LEXIS 11, at *7 n.4 (FINRA NAC Aug. 18, 2010). Mass. Gen. Laws Chapter 110A, Section 101, makes it unlawful, in the offer or sale of a security, directly or indirectly: (1) to employ any device, scheme or artifice to defraud; (2) to make an untrue statement of a material fact or omit a material fact; or (3) to engage in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person. In the MC-400, the Sponsoring Firm and X disputed that the State 1 consent order statutorily disqualified X from the securities industry. X thereafter abandoned this argument and, in subsequent filings and at the hearing, did not dispute his statutory disqualification from the industry.

[4] X's suspension ran from February 2008 through August 2008. State 1 thereafter allowed X to re-register in the state. X also fully paid the $10,000 fine.

III. Background Information

A. X

X has been employed in the securities industry since September 2001, when he qualified as a general securities representative. X also passed the uniform combined state law exam (Series 66) to qualify as a state securities agent and investment advisor in January 2002. X was associated in a registered capacity with Firm 1 from September 2001 through February 2008. He currently is employed as a certified financial planner with Firm 2.[5]

X has no disciplinary or regulatory history other than the State 1 action that precipitated his disqualification. He also has no criminal history, customer complaints, or arbitrations.

Before the Hearing Panel, X stated that he has been chastened by the State 1 action and he is now much more cautious. He noted that State 1 allowed him to re-enter the industry without additional supervision immediately after the six-month suspension, and he worked for approximately one year before the Sponsoring Firm filed the application that is before us. He stated that the State 1 action caused significant harm to his reputation and his family and that he is determined to rebuild his career and maintain compliance with all applicable rules and regulations going forward. X stated that, if allowed to return to the securities industry, he will not sell auction rate securities. He stated that he is a long-time resident of his community of approximately 30,000 people and that he derives much of his business from client referrals, so he will do all that he can to restore his standing in the securities business.

B. The Sponsoring Firm

The Sponsoring Firm has been a FINRA member since March 2001. The Application states that the Sponsoring Firm has one Office of Supervisory Jurisdiction ("OSJ") and three branch offices. It employs approximately 68 individuals – 13 registered principals and 50 registered representatives. The Sponsoring Firm does not employ other statutorily disqualified individuals.

The Sponsoring Firm's founder, Firm Employee 1, entered the securities business in 1979 and has no disciplinary history. Before the Hearing Panel, Firm Employee 1 represented that the Sponsoring Firm does not trade for its own accounts and does not clear trades. The Sponsoring Firm's primary area of business is sales to institutional customers, and only ten percent of its business involves retail sales. Most of the Sponsoring Firm's retail business occurs in the Sponsoring Firm's City 2, State 2 office, an OSJ managed by the Proposed Supervisor and in which X will work. Firm Employee 1 also represented that all of the Sponsoring Firm's regulatory matters have involved the Sponsoring Firm's main office in City 3, not the City 2

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[5] Firm 2 is an independent registered investment advisor owned by X's Proposed Supervisor at the Sponsoring Firm. Neither Firm Employee 1 nor X has an ownership interest in Firm 2. Firm 2 uses the Sponsoring Firm exclusively to execute its securities transactions.

office that the Proposed Supervisor runs. He stated that the City 2 OSJ has been operating for 20 months and has not been the focus of any customer complaints.

The Hearing Panel questioned Firm Employee 1 and the Proposed Supervisor extensively regarding the Sponsoring Firm's commitment to rule compliance. Firm Employee 1 stated that, in recent years, he has increased the Sponsoring Firm's focus on compliance. He indicated that he had been trying to handle the Sponsoring Firm's regulatory compliance issues himself, and he was the Sponsoring Firm's Chief Compliance Officer. He stated that, in past years, FINRA had identified compliance irregularities at the Sponsoring Firm, and he now realizes that he needs to rely on experts who know more about compliance than he does. Firm Employee 1 detailed the efforts that he has made to refocus the Sponsoring Firm's compliance efforts, such as relegating the position of Chief Compliance Officer to a more qualified individual, hiring two outside compliance consultants to offer significantly more input on the Sponsoring Firm's procedures, and hiring outside counsel to advise the firm on its regulatory compliance efforts. Firm Employee 1 estimated that the Sponsoring Firm's costs for hiring outside consultants and counsel to improve the Sponsoring Firm's regulatory compliance increased from approximately $50,000 in 2006 to close to one million dollars in 2011.[6] Firm Employee 1 represented that he intends to continue devoting the Sponsoring Firm's time and money to rule compliance. He also represented that he has brought his son, who recently passed the Series 24 principal examination, to the Sponsoring Firm. He stated that there is no greater motivation to him than to improve the Sponsoring Firm's compliance record and create a solid and reliable firm to pass on to his son.

The Sponsoring Firm recently named Firm Employee 2 as the Sponsoring Firm's Chief Compliance Officer. She has 20 years of experience in the securities industry and no disciplinary history. Firm Employee 1 stated that the Sponsoring Firm also has given Firm Employee 2 an assistant to boost its compliance efforts, and the assistant is devoted to handling the Sponsoring Firm's anti-money laundering and CRD® reporting issues, both of which FINRA has cited as deficient in recent examinations.

1. Regulatory Actions

In 2011, FINRA issued a Minor Rule Violation Letter to the Sponsoring Firm. FINRA cited the Sponsoring Firm for failing, during a 15-month period from January 2009 through March 2010, to transmit 2,341 reportable order events in OATS on 226 days (56% of all orders that the Sponsoring Firm was required to transmit). FINRA fined the Sponsoring Firm $2,500. In response, the Sponsoring Firm contended that it misunderstood that an outside vendor with which it had contracted would report the trades. The Sponsoring Firm stated that it has instituted procedures to ensure that the problem does not recur.

In 2011, FINRA accepted a Letter of Acceptance, Waiver and Consent ("AWC") from the Sponsoring Firm, in which, without admitting or denying the allegations, the Sponsoring

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[6] Firm Employee 1 represented that the Sponsoring Firm's efforts to improve its regulatory compliance post-date, and represent the Sponsoring Firm's efforts to respond to, the regulatory deficiencies identified by FINRA staff.

Firm consented to findings that, between November 2006 and August 2008, the Sponsoring Firm failed to: open and maintain a special reserve bank account; maintain minimum net capital on two dates; include required information on research reports; maintain records of its analysts' research appearances; restrict its investment advisors from engaging in investment banking activities; and implement written supervisory procedures related to research. The Sponsoring Firm agreed to a censure and $50,000 fine.[7]

In 2009, FINRA accepted an AWC from the Sponsoring Firm, in which, without admitting or denying the allegations, the Sponsoring Firm consented to findings that, between December 2005 and March 2006, the Sponsoring Firm enabled seven registered representatives to enter trades for customers and earn commissions of approximately $19,500 while the representatives' registrations with the Sponsoring Firm had not been approved. FINRA censured the Sponsoring Firm and fined it $25,000.[8]

2. Examinations of the Sponsoring Firm

As a result of FINRA's most recent (2010) sales practice examination of the Sponsoring Firm, FINRA issued a 2011 Cautionary Action for inaccuracies in Forms U4 and the Sponsoring Firm's Form BD, books and records deficiencies, deficient supervision, and deficiencies in the Sponsoring Firm's website. The Sponsoring Firm undertook remedial action to address these deficiencies. FINRA filed without action other exceptions noted in the examination and referred three exceptions to FINRA's Department of Enforcement.[9]

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[7] In response to the 2011 AWC, the Sponsoring Firm submitted a corrective action statement in which the Sponsoring Firm indicated that it previously cleared its transactions through Firm 3. Firm 3 filed for bankruptcy protection and precipitously closed. The Sponsoring Firm accepted approximately 2,500 of Firm 3's customers, including foreign accounts. The Sponsoring Firm held funds that were payable to foreign investment advisors for the foreign accounts and mistakenly failed to hold the funds in a special reserve account and to treat the funds as either an asset or liability of the Sponsoring Firm for net capital calculations. The Sponsoring Firm stopped carrying this type of foreign account in February 2009. The Sponsoring Firm also stated that, in 2006, it hired a research analyst with 16 years of experience. The Sponsoring Firm had not previously employed any analysts or provided research services, and it relied to its detriment on this person to comply with regulatory requirements. The Sponsoring Firm stated that it ceased all research activities in 2008 and has no plans to provide research in the future.

[8] With respect to the AWC, the Sponsoring Firm stated that seven representatives who had worked for Firm 3 joined the Sponsoring Firm after Firm 3's demise. When they joined the Sponsoring Firm, Firm 3 owed them commissions on trades that were initiated at Firm 3, but subsequently transferred to the Sponsoring Firm. The Sponsoring Firm contended that it mistakenly paid the commissions to these representatives before FINRA had approved the transfer of their registrations from Firm 3 to the Sponsoring Firm.

[9] The exceptions that Member Regulation referred to the Department of Enforcement related to the Sponsoring Firm's net capital, books and records, customer protection reserves,

[Footnote continued on next page]

After the Sponsoring Firm's 2008 routine examination, FINRA issued a 2009 Cautionary Action relating to several exceptions, including the Sponsoring Firm's failure to update information on file with FINRA, notify FINRA of third-party vendors, and document that it had followed certain supervisory procedures. The Sponsoring Firm undertook remedial action to address these deficiencies.

FINRA's 2007 off-cycle examination of the Sponsoring Firm resulted in a 2007 Cautionary Action regarding the Sponsoring Firm's failure to timely furnish its customers with copies of their account records, obtain necessary information from customers before approving their accounts for options trading, and implement supervisory procedures to address the opening and approving of accounts and suitability determinations. The Sponsoring Firm undertook remedial action to address these deficiencies.

Following FINRA's 2006 examination of the Sponsoring Firm, FINRA issued a 2006 Cautionary Action regarding the Sponsoring Firm's failure to disclose outside business activities on Forms U4, failure to maintain adequate business procedures, mischaracterization of assets, inaccurate net capital calculations, and failure to designate a senior registered options principal. The Sponsoring Firm undertook remedial action to address these deficiencies.

The record shows no other recent complaints, disciplinary proceedings, or arbitrations against the Sponsoring Firm.

IV. X's Proposed Business Activities and Supervision

The Sponsoring Firm proposes that it will employ X as a general securities representative in its OSJ in City 2, State 2. His duties will be to manage his own accounts. The firm proposes to compensate X with commissions and indicates that he also will receive advisory fees from Firm 2.

X testified that, if allowed to re-enter the industry, he would execute trades for his current investment advisor clients himself rather than refer them to other registered representatives at the Sponsoring Firm as he now does. He also hopes to build a customer base of individuals who do not need his investment advisory services from referrals and anticipates that these clients will have small retail accounts.

The Sponsoring Firm states that the Proposed Supervisor, managing director of the City 2 OSJ, will supervise X. The Sponsoring Firm represents that the Proposed Supervisor currently supervises 15 other individuals in the City 2 OSJ, and X will sit just a few feet away from the

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and municipal securities business. The record does not include information from FINRA's Department of Enforcement regarding the status of the referral.

Proposed Supervisor.[10] The Proposed Supervisor has served as the manager of the City 2 office since early 2010.

The Proposed Supervisor first registered as a general securities representative in October 1983, and he qualified as a general securities sales supervisor in June 1989. The Proposed Supervisor has significant experience as a supervisor at other member firms. The Proposed Supervisor has been registered with the Sponsoring Firm as a general securities representative, principal, and sales supervisor since January 2010.

The Proposed Supervisor does not have any disciplinary, regulatory or criminal history. In 2003, a customer filed an arbitration action against Firm 4, in which he named the Proposed Supervisor for failing to supervise. The arbitration was dismissed with prejudice in February 2004.

The Sponsoring Firm proposes as X's alternate supervisor, when the Proposed Supervisor is unavailable, Firm Employee 3. Firm Employee 3 first registered as a general securities representative in December 2000, and he qualified as a general securities principal in March 2007. He has been associated as a general securities representative and principal with the Sponsoring Firm since December 2009 and has no regulatory, disciplinary or criminal history.

V. Member Regulation's Recommendation

Member Regulation recommends that the application be denied because the Sponsoring Firm's disciplinary history shows consistent and persistent supervisory failures. Member Regulation concludes that the Sponsoring Firm's compliance culture, which it deems as lacking, raises questions about the Sponsoring Firm's ability to supervise any statutorily disqualified individual sufficiently. Member Regulation argues that the Sponsoring Firm's regulatory actions are both serious and recent: (1) a 2011 AWC relating directly to the Sponsoring Firm's ability effectively to supervise its registered persons and protect customer funds; (2) matters pending with FINRA's Department of Enforcement arising from a 2010 examination of the Sponsoring Firm related to possible inaccurate net capital computations, inaccurate customer confirmations, and improper handling of customer funds; and (3) FINRA's most recent sales practice examination of the Sponsoring Firm in which FINRA cited the Sponsoring Firm for 19 apparent violations, some of which involved supervisory failures. Member Regulation concedes, however, that the proposed primary and secondary supervisors of X possess appropriate qualifications.

VI. Discussion

We have carefully considered the entire record in this matter. Based on this record, and pursuant to the Commission's controlling decisions in this area, we approve the Sponsoring Firm's Application to employ X as a general securities representative, subject to the supervisory

[10] The Proposed Supervisor serves on two boards and devotes approximately five hours per month (one-half hour during trading hours) to work on each board.

terms and conditions set forth below.

A. The Legal Standard

In evaluating an application like this, we assess whether the sponsoring firm has demonstrated that the proposed association of the statutorily disqualified individual is in the public interest and does not create an unreasonable risk of harm to the market or investors. *See Ass'n of X*, Redacted Decision No. SD09002, slip op. at 5 (FINRA NAC 2009), *available at* http://www.finra.org/web/groups/industry/@ip/@enf/@adj/documents/nacdecisions/p117874.pdf; *see also Frank Kufrovich*, 55 S.E.C. 616, 624 (2002) (holding that FINRA "may deny an application by a firm for association with a statutorily-disqualified individual if it determines that employment under the proposed plan would not be consistent with the public interest and the protection of investors"); FINRA By-Laws, Art. III, Sec. 3(d) (providing that FINRA may approve association of statutorily disqualified person if such approval is consistent with the public interest and the protection of investors). Factors that bear on our assessment include the nature and gravity of the statutorily disqualifying misconduct, the time elapsed since its occurrence, the restrictions imposed, the totality of the regulatory and criminal history, and the potential for future regulatory problems. We also consider whether the sponsoring firm has demonstrated that it understands the need for, and has the capability to provide, adequate supervision over the statutorily disqualified person. The sponsoring firm has the burden of demonstrating that the proposed association is in the public interest despite the disqualification. *See Timothy P. Pedregon, Jr.*, Exchange Act Rel. No. 61791, 2010 SEC LEXIS 1164, at *16 & n.17 (Mar. 26, 2010).

We find that the Sponsoring Firm has met its burden and that X's association with the Sponsoring Firm will not create an unreasonable risk of harm to the market or investors.

B. X's Commitment to the Securities Industry and Evidence of His Rehabilitation

We recognize that X's misconduct related to the State 1 consent order was serious, but we note that it occurred nearly five years ago, and State 1 allowed him to resume activities in the state immediately after serving a six-month suspension and with no requirement for additional supervision. In addition, the record shows that X accepts responsibility for his mistake in 2006 and seeks to move forward with his career as a securities professional. We find that X will seek to fully understand the products that he recommends and accurately disclose potential risks in the future. The record also suggests that X relied heavily upon his firm with respect to the safety and reliability of the auction rate securities that he sold to City 1. Moreover, we note that X re-entered the securities industry in August 2008, after serving the six-month suspension, and worked as a general securities representative for more than one year without incident.

We find credible X's representations that he accepts responsibility for his prior actions and is fully committed to rule compliance going forward. We believe that the record evidences X's rehabilitation since the statutorily disqualifying event and conclude that X's misstep was a one-time lapse that we do not anticipate will recur. In support of our conclusion, we note that X has no disciplinary or regulatory history other than the statutorily disqualifying event and that the Proposed Supervisor, who has worked with X for several years at Firm 2 and previously at another firm, testified as to his confidence in X's character. Our assessment of the totality of the circumstances and the record guides us to the conclusion that X has the ability to deal with the

public in a manner that comports with FINRA's requirements for high standards of commercial honor and just and equitable principles of trade in the conduct of his business.

C. The Sponsoring Firm's and the Supervisor's Ability to Supervise X

After careful consideration of the testimony of the Proposed Supervisor and Firm Employee 1 and the documents included in the record, we also find that the Sponsoring Firm and the Proposed Supervisor are qualified to supervise a statutorily disqualified person such as X. The Proposed Supervisor and Firm Employee 1 have demonstrated both an understanding of the need for and an ability to provide heightened supervision of X.

The Proposed Supervisor has extensive experience in the securities industry and as a supervisor. His record is devoid of any disciplinary and regulatory incidents. In our view, he credibly expressed deep commitment to regulatory compliance and to the significant level of responsibility associated with supervising a statutorily disqualified individual. We note that he and X will be seated near each other, and the Proposed Supervisor credibly represented that his schedule will allow sufficient time to devote to oversight of X's activities.

We similarly find the Sponsoring Firm qualified to supervise X. The Sponsoring Firm has been a member since 2001 and, despite its regulatory history, Firm Employee 1 has satisfied us that the Sponsoring Firm has taken the necessary corrective actions to address noted deficiencies and ensure regulatory compliance in the future. Firm Employee 1 represented that he has made meaningful and significant improvements in the Sponsoring Firm's compliance infrastructure, and he credibly committed himself and the Sponsoring Firm to continuing with these improvements.[11] Indeed, Firm Employee 1 readily acknowledged his shortcomings as the Sponsoring Firm's Chief Compliance Officer and his limitations on the retail side of the business. In response, Firm Employee 1 delegated retail supervision and compliance to the Proposed Supervisor and Firm Employee 2, and he contends that the Sponsoring Firm will continue to heavily utilize its outside compliance consultants and legal advisors.

With respect to the Sponsoring Firm's proposed plan of heightened supervision, "[i]n assessing a supervisory plan, 'we require . . . stringent supervision for a person subject to a statutory disqualification.'" *Timothy H. Emerson, Jr.*, Exchange Act Rel. No. 60328, 2009 SEC LEXIS 2417, at *18 (July 17, 2009) (*citing William J. Haberman*, 53 S.E.C. 1024, 1032 (1998)). The Sponsoring Firm presented a plan of heightened supervision that included, as point seven, a representation that the Proposed Supervisor will review 15 percent of all of X's accounts quarterly. At the hearing, in response to questioning by the Hearing Panel, the Proposed Supervisor and Firm Employee 1 represented that it would not be problematic for the Proposed

[11] We note that, on behalf of the Sponsoring Firm, Firm Employee 1 committed to maintaining a strong focus on compliance. For instance, Firm Employee 1 testified that recently the Sponsoring Firm has increased significantly the time, man power, and money that it devotes to rule compliance and that he intends for the Sponsoring Firm to continue this trend. Our decision to permit X to associate with the Sponsoring Firm is based on the evidence of Firm Employee 1's commitment in this regard.

Supervisor to increase his quarterly reviews of X's accounts, as stated in point seven of the Sponsoring Firm's proposed heightened plan of supervision, from 15 percent to 100 percent. The supervisory plan contained herein reflects this condition. With this modification, we are satisfied that the following heightened supervisory procedures will enable the Sponsoring Firm to reasonably monitor X's activities on a regular basis:[12]

1. The Sponsoring Firm will amend its written supervisory procedures to state that the Proposed Supervisor will be the primary supervisor responsible for X.

2. X will not maintain discretionary accounts at the Sponsoring Firm.

3. X will not act in a supervisory or principal capacity.

4. The Proposed Supervisor will supervise X on-site at the Sponsoring Firm's OSJ in City 2, State 2.

5. The Proposed Supervisor will review and pre-approve each securities account prior to X's opening the account. The Proposed Supervisor will document the account paperwork as approved with a date and signature and maintain the paperwork at the City 2 office. The Proposed Supervisor will keep copies of the paperwork segregated for ease of review during any statutory disqualification examination.

*6. The Proposed Supervisor will review and approve X's orders after execution, or as soon as practicable, but no later than on a T+1 basis. The Proposed Supervisor will then review the trade reports, on a T+1 basis, evidence his review by initialing the trade reports, and keep copies of the reports segregated for ease of review during any statutory disqualification examination.

*7. The Proposed Supervisor will review 100 percent of X's accounts quarterly. These accounts will be reviewed to confirm that the activity meets suitability requirements and are consistent with the customers' investment objectives, experience, financial status, and age. Following this review, the Proposed Supervisor will meet with X, in person, to discuss X's business activities. X and the Proposed Supervisor will acknowledge their participation after each meeting in writing. All documents evidencing these reviews and meetings will be segregated for ease of review during any statutory disqualification examination.

*8. X will disclose to the Proposed Supervisor, on a monthly basis, details

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[12] The Sponsoring Firm represents that the items that are denoted by an asterisk are heightened supervisory conditions for X and are not standard operating procedures of the Sponsoring Firm.

relating to any meetings with clients held outside of the office. The disclosure must contain X's activity log, phone call log, appointment log, and to-do list.

*9. X will not be permitted to sell or recommend asset-backed securities, including CDOs, or auction rate securities.

*10. The Proposed Supervisor will review all of X's incoming written correspondence (which includes email communications), at a minimum, on a monthly basis, and the Proposed Supervisor will review and approve all of X's outgoing correspondence (which includes email communications) before they are sent.

*11. For the purposes of client communication, X will only be allowed to use an email account that is held at the Sponsoring Firm and/or at the domain of dlgwm.com, with all emails being filtered through the Sponsoring Firm's email system ("permitted email account"). If X receives a business-related email message in an email account other than the permitted email account, he will immediately deliver that message to the Sponsoring Firm's email account. X will also inform the Sponsoring Firm of all outside email accounts that he maintains. The Proposed Supervisor will conduct a weekly review of all business-related email messages that are either sent to or received by X to an account other than a permitted email account. The Proposed Supervisor will maintain the emails and keep them segregated for ease of review during any statutory disqualification examination.

*12. All complaints pertaining to X, whether verbal or written, will be immediately referred to the Chief Compliance Officer, or his designee. The Compliance Department will prepare a memorandum to the file as to what measures were taken to investigate the merits of the complaint and the resolution of the matter, and will keep documents pertaining to these complaints segregated for ease of review. The Chief Compliance Officer will make the Proposed Supervisor aware of any and all complaints filed against X.

13. If the Proposed Supervisor is on vacation or out of the office, Firm Employee 3 will act as X's interim supervisor.

14. For the duration of X's statutory disqualification, the Sponsoring Firm must obtain prior approval (or subsequent approval, if warranted) from Member Regulation if it wishes to change X's status or function at the Sponsoring Firm or his responsible supervisor from the Proposed Supervisor to another person.

*15. The Proposed Supervisor must certify quarterly (March 31st, June 30th, September 30th, and December 31st of each year), in writing, to the Compliance Department of the Sponsoring Firm that he and X are in

> compliance with all of the above conditions of heightened supervision to be accorded X.

FINRA certifies that: (1) X meets all applicable requirements for the proposed employment; (2) the Sponsoring Firm represents that it is also a member of the Nasdaq Stock Market, LLC and the Municipal Securities Rulemaking Board; (3) the Sponsoring Firm represents that it does not employ any other statutorily disqualified individuals; and (4) the Sponsoring Firm represents that X and the Proposed Supervisor are not related by blood or marriage.

VII. Conclusion

Accordingly, we approve the Sponsoring Firm's Application to employ X as a general securities representative, subject to the above-mentioned heightened supervisory procedures. In conformity with the provisions of Exchange Act Rule 19h-1, the association of X as a general securities representative with the Sponsoring Firm will become effective within 30 days of the receipt of this notice by the Commission, unless otherwise notified by the Commission.

On Behalf of the National Adjudicatory Council,

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Marcia E. Asquith
Senior Vice President and Corporate Secretary