

BEFORE THE NATIONAL BUSINESS CONDUCT COMMITTEE

NASD REGULATION, INC.

In the Matter of
the Continued Association of

X

as a

Registered Principal

with

The Sponsoring Firm

Redacted Decision

Notice Pursuant to
Section 19h-1
Securities Exchange Act of 1934

SD97010

This matter involves the continued association of X¹, a person subject to a statutory disqualification, as a general securities principal, a municipal securities principal, and the Executive Vice President ("EVP") and Chief Operating Officer ("COO") of a member firm ("the Sponsoring Firm" or "the Firm"), located in California. A hearing in the matter was held in October 1997 before a subcommittee ("Hearing Panel") of the Statutory Disqualification Subcommittee ("SD Subcommittee") of NASD Regulation, Inc. ("NASD Regulation"). X appeared and was accompanied by counsel and the Firm's Chief Compliance Officer. The President and Chief Executive Officer ("CEO") of the Firm participated in the hearing by telephone.

X is subject to a statutory disqualification in a principal capacity as a result of a 1980 Securities and Exchange Commission ("SEC" or "the Commission") wherein he was suspended for 120 days from association with any broker or dealer, investment company, investment adviser or municipal securities dealer. X was also barred from association in a supervisory or compliance capacity with any broker or dealer, investment company, investment adviser or municipal securities dealer, provided that he had a right to reapply to act in a supervisory or compliance capacity after one year. The SEC found that X had failed to supervise several salespersons who committed violations of the anti-fraud provisions of the federal securities laws.

¹ The names of the Statutorily Disqualified individual, the Sponsoring Firm, the Proposed Supervisor, and other information deemed reasonably necessary to maintain confidentiality have been redacted.

In July 1983 the SEC Division of Enforcement granted X's application to serve as acting branch manager in a Florida office of Firm A.

In April 1985 X became subject temporarily to a second statutory disqualification as a result of his consent to the entry of an Order of Preliminary Injunction in a United States District Court. The SEC subsequently dismissed this injunctive action as to X in August 1986 and the second statutory disqualification was removed.

X's association as a general securities principal with Firm B and Firm C was the subject of a Rule 19h-1 notice filed by the NASD on July 13, 1988 and approved by the SEC in August 1988.

X's association as a general securities principal with Firm D was the subject of a Rule 19h-1 (a)(3)(ii) notice filed by the NASD on May 3, 1991 and acknowledged by the SEC on May 24, 1991.

X's association as a general securities representative, general securities principal, and municipal securities principal with the Sponsoring Firm was the subject of a Rule 19h-1 (a)(3)(ii) notice filed by the NASD on June 10, 1996 and acknowledged by the SEC on July 17, 1996.

X testified at the hearing as to his employment with the Sponsoring Firm since 1996. He has been an Executive Vice President with responsibilities for supervising trading activities, supervising sales managers, developing new products, handling marketing, and preparing promotional reports. X wants to continue his current responsibilities at the Sponsoring Firm as the Firm's COO. He stated that since the 1980 SEC Order which resulted in his statutory disqualification, there have been no other actions or customer complaints against him.

The Sponsoring Firm. The Sponsoring Firm has been a member of the NASD since 1982 and is engaged in a general securities business. The Firm's President stated that over 95% of the Firm's revenue is derived from the purchase and sale of mortgage-backed securities to institutional investors. The Firm clears on a fully disclosed basis through the Bank of New York, employs six registered principals and 62 registered representatives, and has one office of supervisory jurisdiction ("OSJ") and no branch offices. The Firm proposes to continue to employ X as a general securities representative and general securities principal with the titles of EVP and COO to work from the Firm's home office, located in California.

The Sponsoring Firm proposes that the President and CEO ("the Proposed Supervisor") will supervise X. The Proposed Supervisor has been a registered representative since February 1995 and a general securities principal since July 1996. He has no disciplinary history. The Firm also proposes to have the First Vice-President and Chief Compliance Officer, act as a "back-up" supervisor for X. The proposed "back-up" supervisor has been in the securities industry since 1996 and was registered as a general securities principal with the Sponsoring Firm in August 1997. He

has no disciplinary history. At the hearing, the Hearing Panel stressed, and the Proposed Supervisor agreed, that although the Chief Compliance Officer could be designated as a "back-up" supervisor, the Proposed Supervisor would maintain total supervisory responsibilities over X. The Firm proposes that X will make introductions and work with a number of clients without having primary responsibility for handling any accounts, all of which will be handled by other registered representatives. X's additional duties will include: (1) supervision of wholesale trading activities with other dealer firms; (2) supervision of sales managers who are responsible for the daily assistance and review of activities of salespersons in the home office; (3) development of new sales products and coordination with the parent company; (4) marketing and business development on behalf of other registered representatives; (5) creation and preparation of management reports; (6) hiring and supervision of various support personnel; and (7) supervision of personnel responsible for negotiating contracts pursuant to sales of various loans and securities.

At the hearing and in written submissions the Firm outlined the following supervisory plan:

- (1) X will be supervised directly by the Proposed Supervisor, with the Chief Compliance Officer designated as "back-up" supervisor.
- (2) X will have daily contact with the Proposed Supervisor.
- (3) X's office is located within 20-30 feet of the Proposed Supervisor's office.
- (4) The Proposed Supervisor will review copies of all correspondence to and from X.
- (5) X will not be involved in clearing or the preparation of confirmations and will not handle any customer funds.
- (6) X will have no direct supervision over the Firm's financial compliance and will have no supervision over general compliance activities or compliance personnel.

The Firm employs one other individual who is subject to a statutory disqualification and no familial relationship exists between X and the Proposed Supervisor. The 1995 routine examination and 1997 SD examinations both were filed without action. The routine 1997 examination resulted in a Letter of Caution.

After a careful review of the entire record in this matter, we approve the application of X for continued association with the Sponsoring Firm as a general securities representative, a general securities principal, and a municipal securities principal with the titles of EVP/COO. We note that the SEC order that led to X's statutory disqualification was issued in December 1980, almost 17 years ago. Since that time, X has been employed as a principal at a number of firms, all without incident. X has been performing his designated duties at the Sponsoring Firm since the SEC's July 1996 acknowledgment of the Rule 19h-1(a)(3)(ii) filing. X will be supervised by the President and CEO of the Firm, who has no disciplinary history. We conclude that X will be sufficiently supervised to permit him to continue to be associated with the Sponsoring Firm as its EVP and COO.

The NASD certifies that X meets all applicable requirements for the proposed employment. The Firm is not a member of any other self-regulatory organization.

Accordingly, in conformity with the provisions of SEC Rule 19h-1, the registration of X as a general securities principal, a municipal securities principal, and the EVP and COO of the Sponsoring Firm will become effective upon the issuance of an order by the Commission that it will not institute proceedings pursuant to Section 15A(g)2) of the Act. The NASD is also seeking relief under Section 19(h) of the Act. This notice shall serve as an application for such an order.

On Behalf of the National Business Conduct Committee,

Joan C. Conley
Corporate Secretary