

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2013035000501**

TO: Department of Enforcement  
Financial Industry Regulatory Authority ("FINRA")

RE: Scottrade, Inc., Respondent  
Member Firm  
CRD No. 8206

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Scottrade, Inc. ("Scottrade" 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 below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Scottrade alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. Scottrade 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 FINRA, or to which FINRA 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 FINRA:

**BACKGROUND**

Scottrade has been a FINRA registered broker-dealer since 1980. Scottrade conducts a general securities business from its main office located in St. Louis, Missouri. The Firm operates primarily as an online broker-dealer, but has approximately 2,000 registered individuals and approximately 500 branch sites located throughout the United States. Scottrade services individual investors primarily through its internet trading site.

**RELEVANT DISCIPLINARY HISTORY**

Scottrade has not been the subject of any formal FINRA disciplinary actions that are relevant to this matter.

**OVERVIEW**

From October 3, 2011 through October 21, 2013, Scottrade failed to establish, maintain and enforce a supervisory system that was reasonably designed to

confirm with customers all wire transmittals from customer accounts to third party accounts (“third party wires”). This conduct violated NASD Rules 3010(a) and 3012, and FINRA Rule 2010.

## **FACTS AND VIOLATIVE CONDUCT**

### **NASD Rules 3010(a) and 3012**

NASD Rule 3010(a) requires firms to “establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD Rules.”

NASD Rule 3012 requires firms to establish, maintain, and enforce written supervisory control policies and procedures which address a variety of activities. Specifically, NASD Rule 3012(a)(2)(B)(i) provides that a member shall have procedures that are reasonably designed to review and monitor all transmittals of funds or securities from the accounts of customers to third party accounts and outside entities, including banks. The policies and procedures established pursuant to 3012(a)(2)(B) must include a means or method of customer confirmation, notification, or follow-up that can be documented. NASD Notice to Members 05-08 confirms that any customer contact pursuant to Rule 3012(a)(2) must be memorialized and retained for review. Factors to be considered with respect to the documentation of customer contact include the date of notification, the means and method of contact (e.g., telephone number or email address), whether there was a response from the customer and, if so, a brief summary of the response and any subsequent action taken. In addition, Rule 3012(a)(2)(A)(i) requires that supervisory reviews of customer accounts, including confirmation of third party wires, be conducted by persons senior to or otherwise independent of the producing manager.

### **Scottrade’s Deficient Supervision of Third Party Wires**

In 2011, FINRA cautioned Scottrade regarding its deficient supervision of third party wires. Specifically, FINRA cautioned Scottrade that the Firm had not established a system reasonably designed to notify customers of third party wires of \$500,000 or less, and to document such notification. In response, the Firm committed to implementing an automated system to notify customers of wire transfers from customers’ accounts to third party accounts by means of emails generated from Scottrade’s home office.

Scottrade did not change any of its procedures or processes to notify customers of third party wires from their accounts until October 21, 2013. As such, from October 3, 2011 through October 21, 2013, Scottrade maintained a supervisory system and supervisory controls that were not reasonably designed to notify

customers of third party wires of \$500,000 or less and to document such notification.

First, with respect to third party wires of less than \$200,000, Scottrade failed to obtain customer confirmation in any manner. Second, with respect to third party wires in amounts between \$200,000 and \$500,000, Scottrade improperly required producing branch office managers to confirm such wire transfers with customers via telephone calls.<sup>1</sup> As a result, Scottrade either failed to obtain customer confirmation, or failed to obtain customer confirmation in compliance with NASD Rule 3012. From October 3, 2011 through July 31, 2013, Scottrade processed 17,413 third party wires in the aggregate amount of \$883,944,371.

The conduct described above violated NASD Rules 3010(a) and 3012, and FINRA Rule 2010.

B. Scottrade also consents to the imposition of the following sanctions:

1. a censure; and
2. a \$300,000.00 fine.

Scottrade agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Scottrade has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Scottrade specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

## II.

### WAIVER OF PROCEDURAL RIGHTS

Scottrade specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against Scottrade;
- B. To be notified of the 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;

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<sup>1</sup> Rule 3012(a)(2)(A)(i) requires that supervisory reviews of customer accounts, including confirmation of third party wires, be conducted by persons senior to or otherwise independent of the producing manager.

and

- D. To appeal any such decision to the National Adjudicatory Council (“NAC”) and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Scottrade specifically and voluntarily waives any right to claim bias or prejudice of the Chief Legal Officer, 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.

Scottrade further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA 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.

### **III.**

#### **OTHER MATTERS**

Scottrade understands that:


- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (“ODA”), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Scottrade; and
- C. If accepted:
  - 1. this AWC will become part of Scottrade’s permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Scottrade;
  - 2. this AWC will be made available through FINRA’s public disclosure program in accordance with FINRA Rule 8313;
  - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
  - 4. Scottrade 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. Scottrade may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Scottrade's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

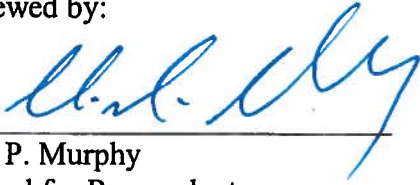
- D. Scottrade may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Scottrade understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Scottrade has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the Firm to submit it.

6/8/15  
Date

Respondent Scottrade, Inc.  
By:   
Timothy M. Huskey  
VP, Associate General Counsel

Reviewed by:



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Accepted by FINRA:

6/19/2015  
Date

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



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