

PRESS RELEASE: NASD Fines Ameritrade, Datek and iClearing \$10 Million for Improperly Extending Credit and Allowing Trades

Dow Jones International News Service via Dow Jones

WASHINGTON, March 11 /PRNewswire/ -- NASD announced today that it has fined Ameritrade, Inc., Datek Online Financial Services, LLC (Datek), and iClearing, LLC \$10 million for improperly extending credit to customers in violation of federal securities laws. As a result of a merger effective September 2002, Datek and iClearing became affiliates of Ameritrade, Inc. of Omaha, NE.

NASD determined that the firms permitted cash account customers to purchase and sell securities in a series of trades without requiring full cash payment for each purchase in violation of Federal Reserve Regulation T. Regulation T requires that customers trading in cash accounts make full cash payment for each separate purchase without regard to unsettled proceeds of any securities sold. Specifically, the firms allowed their customers to make purchase transactions based on proceeds due from unsettled trades. Ameritrade, Datek and iClearing permitted this to occur in over 2 million transactions in 30,000 customer cash accounts. NASD further found that Ameritrade, Datek and iClearing permitted day trading in cash accounts that, in many instances, would have required \$25,000 minimum equity under NASD rules and should have occurred only in a margin account. NASD rules require a minimum of \$25,000 of equity in a customer's account if the customer is a "pattern day trader." A pattern day trader is an individual that executes four or more day trades within five business days.

"As day trading again becomes popular, firms must adhere to the requirements of Regulation T and require customer payment for their securities," said Mary L. Schapiro, NASD Vice Chairman. "The sanctions imposed here today reflect not only the importance of these rules but the firms' failure to timely respond to NASD's concerns."

NASD informed Datek and iClearing that these practices violated Regulation T and the firms failed to comply with repeated NASD warnings. Specifically, NASD informed Datek and iClearing in October 2001 that day trading in cash accounts without requiring full cash payment for each purchase prior to its sale violated Regulation T. In addition, NASD provided Datek and iClearing with two Federal Reserve opinions that supported its position. NASD then informed Datek and iClearing of potential disciplinary action if the firms continued to permit their customers to trade in this manner. Despite these warnings, Datek and iClearing continued to permit customers to use unsettled proceeds to fund purchases in cash accounts.

Before their merger Datek informed Ameritrade that NASD had expressed concern about trading in cash accounts and stated that the action violated Regulation T. In addition, in July and August of 2002, Datek gave Ameritrade three letters it had received from NASD informing the firm that it was violating Regulation T and instructing Datek and iClearing to cease the activity. NASD also instructed Ameritrade in August 2002 in writing to immediately cease such activity and instructed the firm in December to immediately implement a process to

prevent such trading. However, Ameritrade did not completely prevent this type of trading until May 2003.

In September 2003 NASD issued an Investor Alert to remind investors about the risks associated with trading on margin. The Investor Alert can be found at, "Investing with Borrowed Funds: No 'Margin' for Error."

In settling this matter, Ameritrade, Datek and iClearing neither admitted nor denied the charges.

Investors can obtain more information and the disciplinary record of any NASD-registered broker or brokerage firm by calling NASD's BrokerCheck. NASD makes available BrokerCheck at no charge to the public. In 2003, members of the public used this service to conduct more than 2.9 million searches for existing brokers or firms and requested almost 180,000 reports in cases where disclosable information existed on a broker or firm. Investors can link directly to the program by going online to www.nasdbrokercheck.com. Investors can also continue to access this service by calling 1-800-289-9999.

NASD is the leading private-sector provider of financial regulatory services, dedicated to investor protection and market integrity through effective and efficient regulation and complementary compliance and technology-based services. NASD touches virtually every aspect of the securities business -- from registering and educating all industry participants, to examining securities firms, enforcing both NASD rules and the federal securities laws, and administering the largest dispute resolution forum for investors and securities firms. For more information, please visit our Web Site at www.nasd.com.

SOURCE NASD

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11-03-04 1546GMT

(AP-DJ-03-11-04 1546GMT)

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Received by NewsEDGE/LAN: 3/11/2004 10:47 AM