
AP/Bob Bianchini

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^BC-Wall Street Wrongdoers-I,1,500<

^Fines Don't Necessarily Discourage Lawbreaking<

^With BC-Wrongdoers-Victim; Wrongdoers-Database; Wrongdoers-Findings, Wrongdoers-History< ^Graphics WALL STREET LOGO, 20 MAJOR FIRMS, WALL STREET FINDINGS<
^By ROB WELLS=
^AP Business Writer=

NEW YORK (AP) ö America's fever for three-strikes-and-you're-out penalties has not spread to the bastion of pinstripes: Wall Street.

When the largest brokerages or their workers are caught cheating, they usually pay less in fines than the firms spend to throw the office picnic and softball game.

An Associated Press study shows a handful of firms and brokers have committed serious violations over and over again in a system where they are largely responsible for disciplining themselves. The study included enforcement records of the 20 biggest brokerage firms from 1981 to 1994.

Year after year, thousands of investors call the cops on their brokers who may buy stocks without permission or pilfer accounts.

Despite increased enforcement and some high-profile fines of $1 million or more, the typical financial penalties are only a few thousand dollars per violation. That's less than a broker spends to park a car for a year in a Wall Street garage.

The most egregious cases of repeat offenders have been well publicized, such as Prudential Securities Inc.'s troubles in the late 1980s. Yet a review of enforcement records shows five firms had an average two or more serious violations per year: Prudential Securities, a total 77 cases; Paine Webber Group Inc., 48; Merrill Lynch & Co., 46; the former Shearson Lehman Brothers, 42; and Dean Witter Reynolds Inc., 36.

Some large firms had less than half as many: the former Kidder Peabody & Co. Inc., 16; Smith Barney Inc., 14; and A.G. Edwards & Sons Inc., 11.

These serious violations range from insider trading and unauthorized trading to excessively trading a customer's account.

While regulators defend current enforcement, other regulators, brokers and consumer advocates say more could be done to deter the recurrent fraud and carelessness that could ruin any investor.

``When you have 5,000 brokers and you get a $10,000 fine, that's like shooting a pea at Godzilla,'' said Alan Davidson, former member of an industry self-policing panel and now president of Zeus Securities, a Jericho, N.Y., investment firm.

More Americans are entrusting their savings to brokers, hoping that purchases of stocks, bonds and mutual funds will provide better returns than simple bank accounts. One out of three U.S. families has an investment in the markets ö and many new investors could be prey for unscrupulous brokers.

``A lot of those people are just not as informed as they should be,'' said Securities and Exchange Commission Chairman Arthur Levitt Jr., the nation's top financial-market law enforcer.

Bettylou Horn is better informed than she used to be. The Houston widow said she lost about $15,000 when her Dean Witter Reynolds broker, Steven E. Johnston, engaged in unauthorized stock options trading in the early 1980s. The broker was fired and banned from the industry.

``Because I was extremely naive, I sat back, well OK, here's my money, take it and do something for me and let me know when I get rich,'' Horn said. ``And I should have, of course, paid more attention to it. And, of course, I am doing that now.''

Johnston's attorney said he contested the charges and believes he didn't violate SEC rules.

Long-time investors aren't necessarily insulated from abuse either. For Isadore and Bernice Fendelman, owners of a wholesale candy business in St. Louis, it meant the loss of their $200,000 life's savings following the 1987 stock market crash. They blamed the loss on Jerry Stein, a broker who managed their portfolio for 15 years while at several brokerage firms.

Regulators barred Stein and fined him more than $200,000.

Stein denies wrongdoing and is contesting the penalty.

The AP study found financial penalties amounted to $1.37 billion, less than 5 percent of the $29 billion these firms made over a period when the number of enforcement cases was rising continuously.

``I certainly think there's more money to be gained by defrauding people than there is to be lost by legal penalties at this time,'' said Leonard B. Simon, a San Diego attorney who has represented victimized investors.

Many professionals and government regulators argue the industry has cleaned itself up. One study by the General Accounting Office, the investigative arm of Congress, said only 2 percent of brokers have a disciplinary record.

Defenders also argue that total financial penalties have risen sharply in recent years, evidence that it's harder for wrongdoers to go unpunished. Moreover, financial penalties aren't the only enforcement weapon ö suspensions, temporary shutdowns of brokerages and the negative publicity are considered a more severe punishment.

``There are certainly violations that we don't catch and people we don't catch,'' said William McLucas, SEC chief of enforcement. ``But we probably do a better job, the whole system does I think, than what you would be led to infer'' from the AP study.

Indeed, the SEC, National Association of Securities Dealers Inc., and New York Stock Exchange receive generally good marks from academics and congressional overseers for improving enforcement work in recent years.

Nonetheless, records reviewed by the AP show some firms flouted laws they previously had been penalized for breaking.

Prudential Securities and its brokers, for example, were cited 24 times and ordered to pay $1.6 million in cases concerning unsuitable investments in the early 1980s. Later, the brokerage was hit with nearly $1 billion in fines and settlements for the same infraction, this time over risky investments known as limited partnerships, purchased by thousands of unwitting investors in one of Wall Street's worst scandals.

In 1988, Paine Webber Group Inc. and two employees were fined $41,900 for unsuitable trades in a customer account. One employee was barred and the other reprimanded. In ensuing years, Paine Webber or its brokers were cited 13 times for the same violation and ordered to pay $1.4 million.

``Do the fines and suspensions serve their desired purpose of preventing future abuses? I think the answer to that is clearly no,'' said Barbara Roper, a securities industry expert for the Consumer Federation of America, a Washington advocacy group.

Both Prudential and Paine Webber say they've strengthened oversight of brokers by hiring new compliance staff and scrapping financial incentives that tend to put a broker's own financial interest ahead of a client's.

The most common violation found was failure of brokerage bosses to supervise subordinates, a central element of some serious financial debacles like the Barings bank collapse and bankruptcy of Orange County, Calif.

Even where penalties have been strengthened, violations haven't necessarily dropped. Consider insider trading, or illegal use of secret information to profit in the stock market, a crime made famous by the Ivan Boesky scandal of the 1980s. The number of insider trading cases has remained high ö the SEC brought a record number of insider trading cases last year ö even though Congress gave the SEC expanded powers to levy fines in 1984.

Critics of the system, including some regulators themselves, say penalties must rise drastically.

``Unless you really levy a major fine, the hundreds of millions (dollars) type of fine, you really may not be having an impact upon the firm,'' said John Perkins, a former Missouri state securities commissioner.

Wayne Klein, state securities regulator for Idaho, said ``fines are a cost of doing business ... We have to make it more expensive for the firms to violate the law than to comply with the law.''

SEC penalties have risen in recent years, partly reflecting the agency's strengthened enforcement powers. The SEC alone imposed fines and settlements of $340 million against the 20 firms and their brokers since 1990, for example, but that didn't seem to dent its caseload.

The agency handled an average 19 cases per year against the 20 firms since 1991, up from an average 9.4 cases prior to 1991.

The SEC itself, in a study of enforcement problems at nine major firms last year, concluded penalties need strengthening. The General Accounting Office also recommended stiffer fines in a 1994 report that described ``shortcomings in the detection and discipline of unscrupulous brokers.''

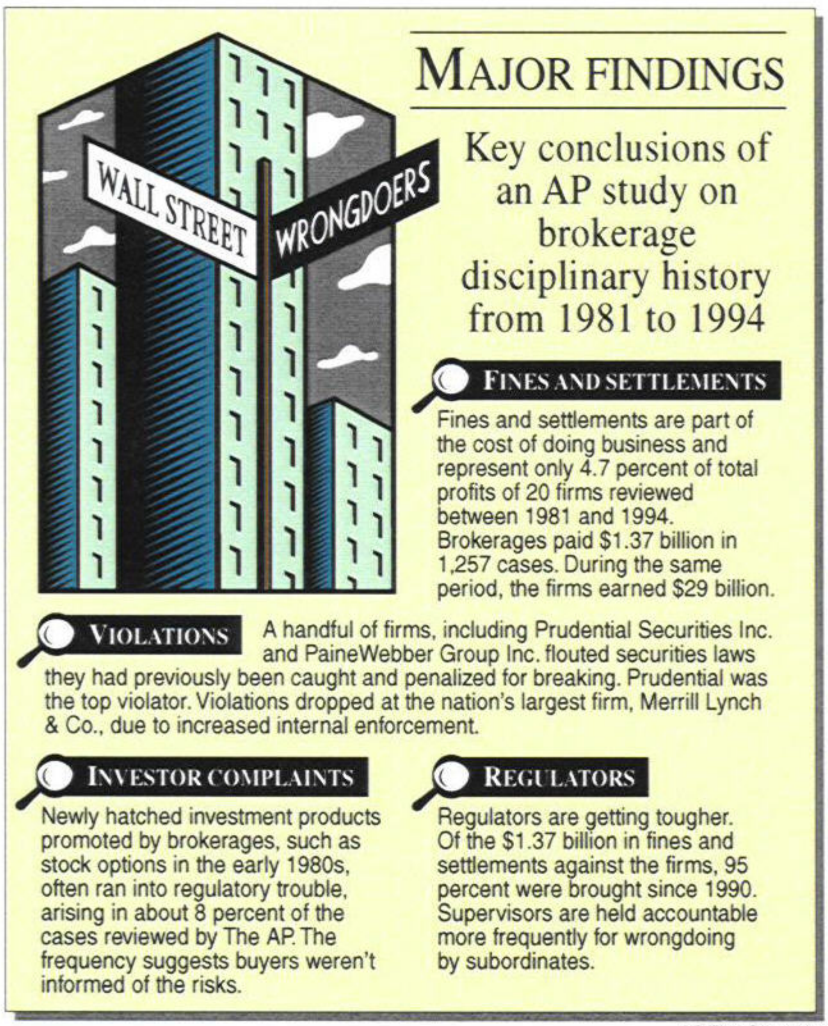
Brokerages say financial penalties alone distort their commitment to investor protection.

At Merrill Lynch, compliance director O. Ray Vass said its self-policing department has grown by 70 percent to 465 people since 1981. Financial penalties levied against brokerages, Vass said, are minuscule in ``contrast to what we spend to try to prevent problems.''

John Pinto, executive vice president of the NASD, a self-policing trade group, said the most powerful enforcement weapons are suspensions and banishment, which do far more financial harm to a brokerage than fines.

The AP study examined suspensions and found regulators handed down more than 109 years' worth of suspensions and criminal terms while barring 83 brokers.

But the AP study showed a suspension's financial impact was limited. Revenues lost from suspended brokers, as measured by a typical broker's production in 1993, totaled $35 million.



AP/Bob Bianchini

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^BC-Wrongdoers-Victim,340<
^With BC-Wall Street Wrongdoers-I<
^It's Not Just the Naive Newcomers Who Get Taken<
^By ROB WELLS=
^AP Business Writer=

WASHINGTON (AP) ö John Campbell didn't have to walk down Wall Street to get mugged there.

The retired St. Louis accountant invested more than $115,000 of retirement savings with Danny Lee Zessinger, a broker who worked at Prudential Securities Inc. and later PaineWebber Group Inc., two of the best-known investment houses in America.

As treasurer of his church, Campbell also entrusted Zessinger with a $35,000 church memorial fund.

Without telling Campbell, Zessinger bought 6,000 shares of a California computer maker while its stock plummeted. Campbell's account lost about half its value.

The case, documented in court records, represents pocket change for Wall Street, where billions of dollars change owners daily. It also illustrates that educated, financially literate customers like Campbell can get taken.

``You work all your life and some company puts some money away for you. You invest it with some company that you trust and it all goes haywire,'' Campbell said.

Campbell is one of the thousands of people every year who call the cops on their brokers. Fortunately for him, the system worked, as he eventually recovered 75 percent of his retirement money.

Zessinger's regulatory file, obtained by the AP, shows Campbell wasn't alone. Nearly 100 complaints were filed by Zessinger's former customers; settlements exceed $3 million.

Many were told they had invested in relatively safe mortgage-backed bonds, but later found Zessinger had bought risky securities.

Zessinger, 34, pleaded guilty to two counts of securities fraud and was sentenced on Oct. 15, 1993 to 7 years probation. He continued working, as an insurance agent for Lifestyles Marketing Group of Arlington, Texas. The Missouri Department of insurance revoked Zessinger's insurance license about 9 months later.

Zessinger later pleaded guilty in a separate federal case to mail fraud and began serving a 33-month sentence last October. His attorney didn't return telephone calls seeking comment.

**A breakdown of the 20 major firms, number of cases, total money paid in fines and settlements, money paid per broker and suspensions from 1981-1994.**

| Ticker name | Firm | Fines and settlements, total money paid | Money paid per broker* | Total cases | Days susp.** |
|---|---|---|---|---|---|
| AGE | A.G. Edwards & Sons, Inc. | $1,346,766.18 | $471.09 | 30 | 372 |
| AXB | Alex. Brown & Sons Incorporated | $62,225.00 | $170.25 | 8 | 0 |
| BSC | Bear, Stearns & Co., Inc. | $11,927,455.52 | $9,776.60 | 42 | 1,125 |
| SCH | Charles Schwab & Co., Inc. | $407,000.00 | $448.24 | 11 | 60 |
| CSFB | CS First Boston Corporation | $646,164.00 | $1,590.88 | 17 | 180 |
| DWD | Dean Witter Reynolds Inc. | $13,065,811.49 | $1,937.83 | 118 | 2,166 |
| DLJ | Donaldson, Lufkin & Jenrette Securities Co. | $5,722,250.00 | $15,570.75 | 17 | 45 |
| EDJO | Edward D. Jones & Co. | $1,063,302.40 | $863.54 | 59 | 365 |
| FIDB | Fidelity Brokerage Services, Inc. | $9,750.00 | $19.45 | 4 | 30 |
| GOLD | Goldman, Sachs & Co. | $2,865,333.00 | $5,344.11 | 20 | 0 |
| JPM | J.P. Morgan Securities Inc. | $3,750.00 | $17.23 | 5 | 0 |
| KIDR | Kidder, Peabody & Co., Incorporated | $32,682,966.12 | $19,440.65 | 62 | 1,705 |
| LEH | Lehman Brothers Inc.*** | $4,377,927.35 | $6,008.13 | 56 | 735 |
| MER | Merrill Lynch, Pierce, Fenner & Smith Incorporated | $16,064,301.78 | $1,384.85 | 151 | 7,680 |
| MS | Morgan Stanley & Co., Incorporated | $21,541,179.05 | $52,390.38 | 65 | 1,095 |
| NMRA | Nomura Securities International, Inc. | $247,250.00 | $2,920.28 | 13 | 0 |
| PWJ | PaineWebber Group Incorporated | $4,273,556.90 | $971.96 | 165 | 4,067 |
| PRU | Prudential Securities Incorporated | $942,848,682.80 | $189,130.82 | 213 | 8,692 |
| SB | Salomon Brothers Inc. | $295,284,750.00 | $315,868.87 | 40 | 0 |
| SBI | Smith Barney Inc. | $9,209,775.12 | $2,624.99 | 66 | 5,470 |
| SLEH | Shearson Lehman Brothers*** | $4,040,526.85 | n.a. | 95 | 6,076 |

*Number of brokers is an average, per firm, from 1981 to 1994.
**Includes criminal sentences.
***Lehman Brothers Inc. and Shearson Lehman Brothers were under the same parent company, American Express Co., until 1993, when Shearson's retail business was sold. Lehman became an independent company in 1994. The two companies engaged in disparate lines of business, and so records were separated.

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^BC-Wrongdoers-Database,230<
^With BC-Wall Street Wrongdoers-I<
^How Enforcement Records Were Analyzed<

NEW YORK (AP) ö The Associated Press reviewed disciplinary records of 20 major securities firms dating to 1981, the beginnings of a major expansion on Wall Street.

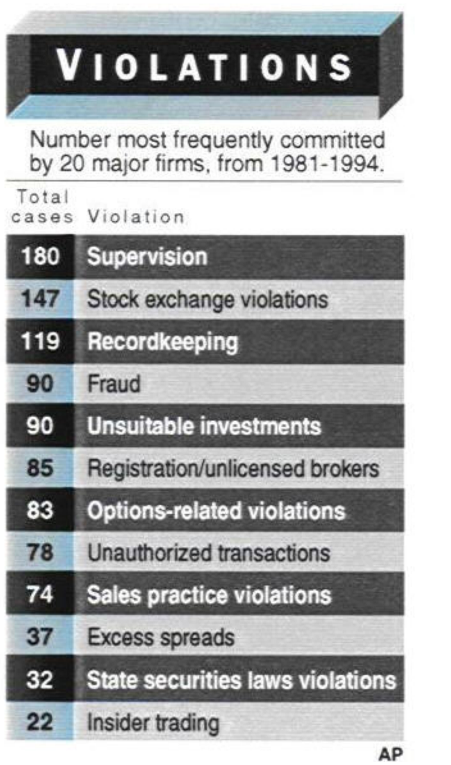
The AP selected firms based on size and market share, then obtained their disciplinary records from the Central Registration Depository, or CRD, a computer system originally set up in 1981 for broker licensing and registration.

The 1,200 records included actions by federal, state and industry self-regulators such as the National Association of Securities Dealers Inc. or NASD. Due to limitations of the CRD search, not all cases against individual brokers were captured. The search yielded brokers only when they were named in cases with their firms, but not named in cases by themselves.

The AP sought more information on individual brokers' records. An additional 1,000 enforcement records were reviewed from the Securities and Exchange Commission and the NASD.

To fill possible gaps, the AP sought case records from state securities regulators with assistance from the North American Securities Administrators Association. Twenty-four states responded.

AP Business Writer Rob Wells then created a computer database, eliminated duplicate or unresolved cases and categorized the violations, fines paid, and suspensions.



VIOLATIONS

Number most frequently committed by 20 major firms, from 1981-1994.

| Total cases | Violation |
|---|---|
| 180 | Supervision |
| 147 | Stock exchange violations |
| 119 | Recordkeeping |
| 90 | Fraud |
| 90 | Unsuitable investments |
| 85 | Registration/unlicensed brokers |
| 83 | Options-related violations |
| 78 | Unauthorized transactions |
| 74 | Sales practice violations |
| 37 | Excess spreads |
| 32 | State securities laws violations |
| 22 | Insider trading |

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^BC-Wrongdoers-Findings,188<
^Key Conclusions of AP Study on 1981-94 Brokerage Disciplinary History<
^With BC-Wall Street Wrongdoers-I<
^By The Associated Press=

ö Fines and settlements are part of the cost of doing business and represent only 4.7 percent of total profits of 20 firms reviewed between 1981 and 1994. Brokerages paid $1.37 billion in 1,257 cases. During the same period, the firms earned

at least $29 billion.
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ö A handful of firms, including Prudential Securities Inc. and PaineWebber Group Inc., flouted securities laws they had previously been caught and penalized for breaking. Prudential was the top violator. Violations dropped at the nation's largest firm, Merrill Lynch & Co., in the mid-1980s, due to increased internal enforcement.
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öNewly hatched investment products promoted by brokerages ö such as stock options in the early 1980s ö often ran into regulatory trouble, arising in about 8 percent cases reviewed by The AP. The frequency suggests buyers weren't informed of the risks.
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ö Regulators are getting tougher. Of the $1.37 billion in fines and settlements against the firms, 95 percent were brought since 1990. Supervisors are held accountable more frequently for wrongdoing by subordinates.

**Total fines, settlements adjusted for inflation**

| Year | Adjusted total in 1994 dollars |
|---|---|
| 1994 | $354,755,314.53 |
| 1993 | $624,127,953.61 |
| 1992 | $324,977,939.00 |
| 1991 | $4,759,671.45 |
| 1990 | $33,359,283.97 |
| 1989 | $2,213,394.21 |
| 1988 | $18,046,759.04 |
| 1987 | $40,642,920.33 |
| 1986 | $15,539,157.39 |
| 1985 | $1,932,071.38 |
| 1984 | $1,165,621.21 |
| 1983 | $1,636,816.06 |
| 1982 | $878,301.69 |
| 1981 | $228,992.38 |

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□^BC-Wall Street Wrongdoers-II,1000<

^Bosses Asleep at the Wheel: Weak Link In Wall Street's Policing System<
^With: BC-Wrongdoers-Regulators; Wrongdoers-Consumers; Wrongdoers-Tips; Wrongdoers-Schwab<
^Graphics WALL STREET LOGO, 20 MAJOR FIRMS, TOTAL FINES, VIOLATIONS<
^By ROB WELLS=
^AP Business Writer=

Prudential Securities Inc.'s disciplinary dossier is littered with episodes of lax supervision, giving it the worst behavioral record of 20 major U.S. brokerages, an Associated Press study has found.

The supervisory neglect that's plagued Prudential also has surfaced frequently at Paine Webber Group Inc., another major brokerage checked in the AP study of Wall Street regulatory violations and settlements dating to 1981.

Both companies say they've expunged errant brokers, installed more vigilant overseers and strengthened compliance staff. Still, the study offers useful insights into one of the weakest links of the U.S. securities industry's self-policing system: failure to properly supervise the troops.

William R. McLucas, enforcement director at the Securities and Exchange Commission, said the agency's policing role is compromised when brokers feel their bosses don't care if they're cheating or don't want to know.

``The bigger problem ... is whether the culture and ethic within the firm is the right one,'' he said, ``and whether there is the environment where if you break the rules you're dealt with relatively severely.''

The AP study found Prudential and its brokers led in many categories of wrongdoing, cited in 213 cases. They paid $943 million in fines and settlements. Regulators barred 21 Prudential brokers from the industry and suspended or jailed others for a total of 24 years' worth of time.

In 36 cases, Prudential was cited for failure to supervise, more frequently than any other brokerage.

Prudential spokesman Charles Perkins admitted the brokerage has suffered from inadequate supervision in the 1980s. Much of the problem, which the firm says was resolved, resulted from aggressive peddling of risky investments known as limited partnerships to innocent customers who didn't know what they were buying.

More than $8 billion of these investments were sold to 320,000 investors during the 1980s, in many cases improperly pitched as safe.

``I think we recognized the mistakes and have dramatically changed the way we do business as a result,'' Perkins said. Prudential now spends $10 million a year on compliance, a tenfold increase over 1986 levels.

``This is a radically different place,'' Perkins said.

At Paine Webber, 165 cases were lodged against the firm and brokers during the period, and it paid $4.3 million in fines and settlements. For its size, Paine Webber was among the most frequent violators of sales practice and suitability violations, when brokers mislead customers about the riskiness of their investments.

Paine Webber says it has changed substantially, tripling its compliance department since 1988 and hiring veteran SEC attorneys to oversee the effort. It developed an intricate computer system to track broker behavior. The system knows, for example, when a broker switches a customer from a safe mutual fund to risky bets in stock options.

``It sends the message that the firm holds people accountable for what they do,'' said Herb Janik, senior vice president and general counsel.

Another change Paine Webber and Prudential made is to eliminate payments and gifts to reward brokers for selling the firm's own brand of mutual funds and investments. In April, an industry study group convened by the SEC recommended elimination of such payments, saying they give rise to conflicts of interest.

Self-supervision is the first defense against fraud on Wall Street and central to the regulation of American financial markets, where there's about one regulatory cop for every 80 brokers. The system is designed so the industry disciplines itself with oversight from federal and state authorities.

But this model has severe limits. That's one reason why the SEC and other regulators have intensified pressure on brokerage management, holding bosses more accountable when subordinates break the rules.

``Where we find failings in supervision, we're not necessarily going to stop with that person's immediate supervisor,'' said John Pinto, executive vice president at the National Association of Securities Dealers Inc., the industry's biggest self-regulatory group.

Among all the brokerages studied, failure to supervise was the most frequent violation, arising in 180 cases.

The study also found wide disparities in disciplinary problems, suggesting that some brokerages behave much better than others. But part of the explanation lies in the type of business each brokerage does.

Discount broker Charles Schwab, for example, doesn't advise customers on what to buy. Nomura Securities Co. and J.P. Morgan Securities Co. engage in underwriting and trading but don't pitch stocks to small investors. None of these brokerages had major disciplinary histories.

But stronger internal policing made a difference at Merrill Lynch & Co., the nation's biggest brokerage. It showed a decline in violations in the late-1980s after it doubled the house-compliance staff to 465 people, who keep tabs on 12,500 brokers.

Merrill also financially rewards brokers if they maintain an unblemished disciplinary record after 10 years, said spokesman Timothy Gilles.

Most regulators say they believe Wall Street firms are improving their self-policing and are much tougher on problem employees than they were in the 1970s and 80s.

``They're getting rid of them and they're being more honest when they get rid of them,'' said Edward Kwalwasser, head of enforcement at the New York Stock Exchange. ``It alerts us to problems that in the past might have gone unreported.''

Despite this movement, consumer activists point to the number and severity of cases in the industry. Regulators typically brought 79 cases a year against the firms or brokers in the AP study during the 1980s, but that figure rose to 116 in the 1990s.

``I don't see a lot of evidence of behavior changing,'' said Barbara Roper, a securities industry expert for the Consumer Federation of America, a trade group. ``The most important statistic is the abuses aren't diminishing.''

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□^BC-Wrongdoers-Consumers,420<
^Consumers Should Beware of New Investment Ideas<
^With Wall Street Wrongdoers-II<
^Graphic FIRM VIOLATIONS<
^By ROB WELLS=
^AP Business Writer=

Beware when Wall Street tries to sell you something new.

A review of disciplinary records by The Associated Press shows a significant number of cases resulted from investment ideas that were novel at the time, such as stock options and limited partnerships.

The AP study, which examined enforcement records of 20 major firms since 1981, showed 83 regulatory cases concerning stock options, contracts that allow an investor the right to buy a stock at a future price and date.

Firms paid $4.3 million in fines and settlements in options cases, many stemming from the early 1980s when options were newfangled products, most of which resulted from improper or unauthorized deals with customers.

Later in the 1980s, limited partnerships backfired on retirees and others who misled into believing the investments were low risk. Prudential Securities has paid nearly $900 million to settle cases resulting from sales of these direct investments in real estate, energy and other ventures, regulators' records show. Other firms, including PaineWebber Group, still face regulatory inquiries about their limited partnership dealings.

Regulators admit they're scrambling to catch up with Wall Street's rapid innovations. Lately, complex investments called derivatives have been the source of major losses for local governments and mutual funds.

``The fact is, as the products evolve, the law is a half a step behind,'' said William R. McLucas, the Securities and Exchange Commission's enforcement director.

The message for consumers: when a broker pitches a new or unfamiliar investment product, insist on a full explanation of the risks. There's usually a good reason if you don't get one.

``It very well may be that the person telling you doesn't understand it either,'' said Nancy Smith, the SEC's consumer affairs director.

Investors have to do basic homework to protect themselves against problems.

It's relatively easy to determine if your broker has a troubled past by calling your state securities regulator. Ask to check your broker's file.

When evaluating a new investment, check if it trades on a major exchange, such as the New York Stock Exchange or the Nasdaq National Market System. If not, then call the state regulators to see if it's licensed for sale in your state.

``I've seen hundreds of thousands of dollars lost when people could have avoided the loss if they just spent a dollar, or two dollars, to call up a regulator to find out of the investment is registered, if it is for real,'' Smith said.

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^BC-Wrongdoers-Regulators,360<
^With BC-Wall Street Wrongdoers-II<
^Glance At Major Wall Street Enforcement Agencies<
^Graphic TOP REGULATORS<
^By The Associated Press=

A key dilemma for Wall Street's police boils down to simple math; they are vastly outnumbered.

Only 6,200 people at the four major regulators stand watch over 8,200 firms 490,000 brokers, enough people to fill a city the size of Miami. That's about 80 brokers per regulator.

``You're talking about a relatively thin blue line to keep the peace and keep people in line,'' said William R. McLucas, enforcement director at the Securities and Exchange Commission.

Faced with this, McLucas and other regulatory officers spread an overworked staff across a vast terrain, from policing insider trading to accounting fraud to sales practice abuses. Time spent on one case to get another $100,000 or $1 million in a settlement is time deducted from prosecuting another case.

As a result, McLucas said, he agonizes over ``getting a bang for the buck out of the cases.''

That partly explains why the SEC will devote large resources to prosecuting large-scale cases, such as the Salomon Brothers Treasury auction cheating scandal a few years ago, in which Salomon paid a $290 million settlement.

A glance at Wall Street's police force:

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SECURITIES AND EXCHANGE COMMISSION:

Main federal regulator of Wall Street firms and stock markets, with a staff of 2,800 in Washington and 11 regional offices. Budget for 1994 was $305 million, derived from fees charged to companies for filing disclosure documents.

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NATIONAL ASSOCIATION OF SECURITIES DEALERS INC.:

The securities industry's main self-policing body, with a staff of 1,640. The NASD brings more disciplinary cases than any other regulator.

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NEW YORK STOCK EXCHANGE:

The NYSE deploys 480 people to supervise 330 member firms. Every member dealing with public is inspected annually and a staff of 31 examiners specializes in sales practice cases. Any firm that draws more than five customer complaints is automatically reviewed.

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STATE REGULATORS:

The states together deploy 1,284 securities regulators who primarily focus on complaints from small investors. Besides examining local branches of Wall Street firms, state regulators pursue more obscure forms of fraud conducted by such businesses as loan brokers and prepaid funeral plans.

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^BC-Wrongdoers-Schwab,140<

^Discount Broker Avoids Trouble By Steering Clear of It<
^With BC-Wall Street Wrongdoers-II<
^By The Associated Press=

The company that fares best in The Associated Press review of disciplinary records is Charles Schwab & Co., the San Francisco-based discount brokerage.

The firm had no suspensions recorded against it. Schwab fines and settlements totaled $407,000 or about $448.24 per broker, about a third of the average. A key reason is the nature of Schwab's business.

Unlike a full-service brokerage like Merrill Lynch & Co., which counsels clients on what investments to buy, Schwab largely confines itself to taking orders from customers.

``We don't give investment advice on the vast majority of products,'' said Guy Bryant, Schwab senior vice president. ``That is one of the reasons why were are able to avoid some of these disciplinary problems.''

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^BC-Wrongdoers-History<
^Fines Were More Lenient Years Ago<
^With: BC-Wall Street Wrongdoers-I<
^By The Associated Press=

Defenders of the current level of fines say it's far more severe now compared to the era of stagnant stock prices in the 1970s, when fewer ordinary Americans invested and trader discipline wasn't nearly as harsh.

In 1974, for example, the National Association of Securities Dealers sanctioned a broker at A.G. Edwards, a major investment firm in St. Louis, for unsuitable and unauthorized trades that drained customer accounts. The punishment was a five-day suspension and fine of $7,515 in 1994 dollars. The broker's three supervisors weren't punished.

A comparable violation today would draw a typical fine of $77,000, the AP study showed.

In several cases in the 1970s, major firms such as Charles Schwab and A.G. Edwards were fined as little as $25 by the NASD.

Fines and settlements are on the rise. The typical financial penalty $3,368 in 1981, when adjusted in 1994 dollars, but rose to about $22,850 last year.

AP/Bob Bianchini