

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2008013749203**

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

**RE: Stock USA Execution Services, Inc.
Member Firm
CRD No. 107403**

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Stock USA Execution Services, Inc. (hereinafter, "Stock USA" 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 Stock USA alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Stock USA 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

Stock USA became a member of FINRA on April 23, 2001. At all times relevant herein, Stock USA offered self-directed online-brokerage services to customers, providing them an electronic platform to access U.S. securities markets on a direct market access basis. At all times relevant herein, Stock USA's customers consisted of domestic and foreign individuals and entities, including foreign financial institutions. Stock USA is headquartered in Carmel, New York and has no additional branch office locations. The Firm currently has seven registered persons.

RELEVANT DISCIPLINARY HISTORY

Stock USA has no relevant disciplinary history.

OVERVIEW

During the time period from October 1, 2008 through March 1, 2013 (hereinafter, "Relevant Period"), Stock USA engaged extensively in a Direct Market Access ("DMA") online-brokerage business while failing to establish adequate Anti-Money Laundering (hereinafter, "AML") policies and procedures to provide for the detection, investigation, and reporting, as applicable, of potential suspicious activity, in violation of NASD Conduct Rule 3011(a) (before January 1, 2010), NASD Conduct Rule 2110 (before December 15, 2008), FINRA Rule 3310(a) (after December 31, 2009), and FINRA Rule 2010 (after December 14, 2008). In addition, Stock USA failed to enforce its existing AML procedures relating to due diligence on correspondent accounts for foreign financial institutions ("FFIs"), in violation of NASD Conduct Rule 3011(b) (before January 1, 2010), NASD Conduct Rule 2110, FINRA Rule 3310(b) (after December 31, 2009); and FINRA Rule 2010. In addition, during the Relevant Period, Stock USA failed to make memoranda of all brokerage orders submitted through the Firm's DMA trading platform, in violation of SEC Rule 17a-3(a)(6)(i), FINRA Rule 4511 (after December 4, 2011), FINRA Rule 2010, NASD Conduct Rule 3110 (before December 5, 2011), and NASD Conduct Rule 2110. Finally, during the time period from November 3, 2010 through March 1, 2013, Stock USA failed to comply with various DMA monitoring and access-control requirements of SEC Rule 15c3-5, in violation of SEC Rule 15c3-5, NASD Conduct Rule 3010, and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

During the Relevant Period, Stock USA operated an online-brokerage business that provided customers an electronic platform to access the U.S. securities markets on a direct market access ("DMA") basis. Stock USA's customers included domestic and foreign individuals and entities, including foreign financial institutions ("FFIs"). Stock USA's customers could directly enter, modify, and cancel orders; route their orders to a specific market center of their choosing; and monitor the status of their orders in real-time. Stock USA permitted its FFI customers to extend their trading access to their own clients. Stock USA facilitated this practice by allowing its FFI customers to maintain master/sub-account and omnibus account structures at Stock USA.

In the case of a master/sub-account structure, Stock USA created subordinate accounts ("sub-accounts") to the FFI's main account and assigned for each sub-account a unique user login to access the electronic trading platform. The sub-accounts (and corresponding trading-platform user logins) were then assigned by the FFI to particular underlying clients. Through this arrangement, the FFI could track individual client trades and balances just as if the client had its own account with Stock USA. The FFI was also able to establish trading parameters/restrictions for each individual client. Stock USA did not require the FFI to disclose the identities of the persons and/or entities to which the FFI assigned sub-accounts.

In the case of an omnibus structure, the FFI utilized an account-management software application, rather than actual sub-accounts, to track individual client trading activity, and the FFI utilized its own electronic trading platform to receive and route its clients' trade orders through the FFI's DMA account with Stock USA.

The use of master/sub-account and omnibus-account structures presents significant regulatory risks due to their potential to mask beneficial ownership and to be used as vehicles to engage in illegal activity, such as money laundering, insider trading, and market manipulation.¹ Stock USA failed to employ appropriate systems and procedures to address these risks, as detailed herein.

Inadequate Systems and Procedures to Detect Possible Manipulative Activity by DMA Customers

FINRA Rule 3310 (formerly NASD Conduct Rule 3011) requires that each FINRA member develop and implement an Anti-Money Laundering Compliance Program to achieve and monitor the member's compliance with the requirements of the Bank Secrecy Act (31 U.S.C. 5311, *et seq.*), and the implementing regulations promulgated thereunder by the Department of the Treasury. In particular, FINRA Rule 3310(a) requires members to establish and implement policies and procedures that can reasonably be expected to detect and cause the reporting of transactions as required by 31 U.S.C. 5318(g) and the implementing regulations thereunder. Title 31 U.S.C. 5318(g) is very broad and requires firms to report suspicious transactions that could represent a violation of law or regulation.²

In April 2002, FINRA issued Notice to Members 02-21, reminding member firms that an AML program must be tailored to address the specific money-laundering risks associated with the particular member's business model and customer base, and that an AML program must, among other things, contain procedures for the monitoring of account activities for "red flags" of money laundering or other violative activity. The Notice provided a non-exhaustive list of 25 AML "red flags," emphasizing that when a "red flag" is detected, the member has a duty to perform additional due diligence before proceeding with the transaction.

During the Relevant Period, Stock USA employed the following measures to detect suspicious trading activity in customer accounts: (i) a weekly review of trades having a principal amount of \$50,000 or greater or involving 100,000 shares or greater (500,000 shares or greater in the case of a penny stock), and (ii) real-time manual monitoring of customer order/trade activity. None of these measures provided an effective means to detect possible manipulative activity. In particular, Stock USA's reliance on a manual-based system of surveillance to detect indicia of manipulative trading activity was entirely unreasonable given the high-volume electronic trading

¹ See National Exam Risk Alert, SEC Office of Compliance Inspections and Examinations (Sep. 29, 2011).

² 31 U.S.C. § 5318(g).

environment in which the Firm operated and the regulatory risks associated with the use of master-sub-account and omnibus-account structures.

Between February 2012 and December 2012, Stock USA received numerous separate inquiries from FINRA Market Regulation in connection with thousands of instances of potential manipulative trading activity observed in certain customer accounts. Despite these inquiries Stock USA took no meaningful steps to improve its ability to detect possible manipulative activity by its DMA customers and, in fact, continued to rely on its manual-based real-time monitoring of order/trade activity.

By virtue of the above-described conduct, Stock USA violated NASD Conduct Rules 3011(a) and 2110, and FINRA Rules 3310(a) and 2010.

Due Diligence Program for Correspondent Accounts for Foreign Financial Institutions

Treasury Regulation 31 C.F.R. 1010.610³ requires that each broker-dealer establish a risk-based due-diligence program (as part of its AML program) for "correspondent accounts" maintained by foreign financial institutions.⁴ As part of that due-diligence program, the broker-dealer must have procedures to identify foreign correspondent accounts and conduct due diligence on those accounts.⁵ Specifically, the rule requires broker-dealers to perform an assessment of the money laundering risk present in the case of each correspondent account, taking into account, as part of that assessment, all relevant factors, including, but not limited to, the following: (i) the nature of the foreign financial institution's business and the markets it serves; (ii) the type, purpose, and anticipated activity of such correspondent account; (iii) the nature and duration of the broker-dealer's relationship with the foreign financial institution; (iv) the anti-money laundering and supervisory regime of the jurisdiction in which the foreign financial institution is located; and (v) information known or reasonably available to the broker-dealer about the foreign financial institution's anti-money laundering record.⁶

The rule also requires broker-dealers to conduct a periodic review of the correspondent account activity to determine: (i) whether the activity in the account is consistent with the information that was initially obtained about the type, purpose, and anticipated activity of the account; and (ii) whether, given the volume and/or type

³ On March 1, 2011, FinCEN transferred its regulations from 31 C.F.R. Part 103 to 31 C.F.R. Chapter X as part of an ongoing effort to increase the efficiency and effectiveness of its regulatory oversight. 31 C.F.R. 1010.610 was previously codified at 31 C.F.R. 103.176.

⁴ "Correspondent account" is defined as, "an account established for a foreign financial institution to receive deposits from, or to make payments or other disbursements on behalf of, the foreign financial institution, or to handle other financial transactions related to such foreign financial institution[.]" 31 C.F.R. 1010.605(c).

⁵ 31 C.F.R. 1010.610(a).

⁶ 31 C.F.R. 1010.610(a)(2)(i-v).

of activity in the account, the broker-dealer can adequately identify suspicious transactions.⁷

In May 2006, FinCEN issued guidance relating to the correspondent account rule and its application to omnibus accounts for foreign financial institutions:

Under the correspondent account rule, a securities or futures firm is required to perform due diligence on a foreign financial institution for which an omnibus account is established or maintained. The securities or futures firm generally is not required to look through an omnibus account to perform due diligence on any foreign financial institutions that may be underlying accountholders. However, due diligence conducted on a foreign financial institution for which an omnibus account is established or maintained should include conducting a risk-based assessment into the "nature of the foreign financial institution's business and the markets it serves," including the nature of the foreign firm's account base. Moreover, we expect that a securities or futures firm will conduct increased due diligence on the intermediary institution's account base in the highest risk situations.⁸

FinCEN further noted in the guidance that:

Correspondent accounts are used in the securities and futures industries, for example, when a market participant that does not have direct access to a market or membership in a clearinghouse may use the facilities of a market participant with such access or membership to execute and process trades on its own behalf or on behalf of its customers. Correspondents additionally may use such facilities to deliver funds or assets to a depository, custodial, or other carrying institution. Illicit activity is not limited to the movement of funds. Money launderers may trade securities or futures or commodity option contracts as they layer transactions or integrate criminal proceeds with apparently legitimate proceeds. Thus, in considering the type, purpose, and anticipated activity of a correspondent account being established, maintained, administered, or managed for a foreign financial institution, securities and futures firms should consider the anticipated securities activities or futures and commodity options trading in a correspondent account as well as the use of the account for the purposes of moving funds when performing due diligence on or

⁷ 31 C.F.R. 1010.610(a)(3). *See also*, Financial Crimes Enforcement Network; Anti-Money Laundering Programs; Special Due Diligence Programs for Certain Foreign Accounts, 71 Fed. Reg. 496, 503 (Jan. 4, 2006).

⁸ Application of the Regulations Requiring Special Due Diligence Programs for Certain Foreign Accounts to the Securities and Futures Industries, FinCEN-2006-G009 (May 10, 2006).

monitoring the activity of a correspondent account subject to the provisions of the correspondent account rule.⁹

During the Relevant Period, Stock USA's AML procedures provided that the AML Compliance Officer or his designee would conduct periodic reviews of the activity of each FFI correspondent account for the purpose of assessing whether the activity is consistent with the information that was provided by the FFI regarding the purpose and expected activity of the account, and to ensure that the Firm had effective systems and procedures to identify suspicious activity in the particular FFI correspondent account. During the Relevant Period, no such periodic reviews were ever performed by Stock USA.

By virtue of this failure, Stock USA violated FINRA Rules 3310(b) and 2010 and NASD Conduct Rules 3011(b) and 2110.

SEC Rule 15c3-5 (Market Access Risk Management Controls and Supervisory Procedures)

On November 3, 2010, the Securities and Exchange Commission adopted Rule 15c3-5, to address concerns relating to the growing practice of broker-dealers affording direct market access to customers.¹⁰ Rule 15c3-5 provides that a broker-dealer with market access,¹¹ or that provides customers or any other persons with access to an exchange or alternative trading system ("ATS") through use of the broker-dealer's market participant identifier ("MPID"), must establish risk management controls and supervisory procedures that are reasonably designed to limit the financial exposure of

⁹ *Id.*

¹⁰ Risk Management Controls for Brokers or Dealers with Market Access, Exchange Act Release No. 34-63241 (Nov. 15, 2010), 75 Fed. Reg. 69,792 ("[Rule] 15c3-5 is designed to ensure that broker-dealers appropriately control the risks associated with market access, so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system.").

¹¹ "Market access" is defined as: "(i) access to trading in securities on an exchange or alternative trading system as a result of being a member or subscriber of the exchange or alternative trading system, respectively; or (ii) access to trading in securities on an alternative trading system provided by a broker-dealer operator of an alternative trading system to a non-broker-dealer." Rule 15c3-5(a)(1). Market access may be "filtered" or "unfiltered." In both cases, the customer enters orders through an order-entry system or software. In the case of filtered access, the customer's orders flow through the broker-dealer's trading system before being routed to the applicable exchange or ATS. This allows the broker-dealer to pre-screen the orders to ensure there are no manual errors, regulatory violations, or other issues before the orders are routed to an exchange or ATS. In the case of unfiltered access, the customer's orders do not flow through the broker-dealer's trading system but, instead, are routed directly to the applicable exchange or ATS without screening. Such unfiltered access presents serious financial and regulatory risks, as the sponsoring broker-dealer could be unaware of the trading activity occurring under its MPID and have no mechanism to control it. Rule 15c3-5 effectively prohibits unfiltered-access arrangements.

the broker-dealer and ensure compliance with all regulatory requirements¹² applicable to market access.¹³ Among other things, the controls and supervisory procedures must be reasonably designed to: (i) prevent the entry of orders that exceed appropriate pre-set credit or capital thresholds;¹⁴ (ii) prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, or that indicate duplicative orders;¹⁵ (iii) prevent the entry of orders that are not in compliance with all regulatory requirements that must be satisfied on a pre-order entry basis;¹⁶ (iv) prevent the entry of orders that the broker-dealer or customer is restricted from trading;¹⁷ (v) restrict market access systems to authorized persons;¹⁸ and (vi) assure appropriate surveillance personnel receive immediate post-trade execution reports that enable them to investigate, report, or halt suspicious or manipulative trading activity.¹⁹

The controls and supervisory procedures mandated by Rule 15c3-5 must be under the direct and exclusive control of the broker-dealer.²⁰ Rule 15c3-5 also requires broker-dealers to review annually the effectiveness of their risk management controls and supervisory procedures relating to market access and to certify annually that the controls and supervisory procedures satisfy the requirements of the rule.²¹

As a broker-dealer providing "market access" to customers, Stock USA was subject to the requirements of Rule 15c3-5. However, Stock USA failed to implement adequate controls and supervisory procedures designed to restrict access to market-access systems to persons specifically authorized by the Firm, by allowing FFI customers to extend DMA, through their accounts, to their own clients. It also failed to implement adequate post-trade execution reports to facilitate detection of manipulative trading activity, relying instead on manual-based real-time monitoring

¹² "Regulatory requirements" is defined as, "all federal securities laws, rules and regulations, and rules of self-regulatory organizations, that are applicable in connection with market access." Rule 15c3-5(a)(2).

¹³ Rule 15c3-5(b).

¹⁴ Rule 15c3-5(c)(1)(i).

¹⁵ Rule 15c3-5(c)(1)(ii).

¹⁶ Rule 15c3-5(c)(2)(i). Regulatory requirements that must be satisfied on a pre-trade basis include: (i) the marking and locate requirements of Regulation SHO; (ii) the conditions that must be satisfied under Regulation NMS before an order can be marked an "intermarket sweep order"; (iii) various exchange rules applicable to particular order types; and (iv) compliance with trading halts. See 75 Fed. Reg. 69,803.

¹⁷ Rule 15c3-5(c)(2)(ii).

¹⁸ Rule 15c3-5(c)(2)(iii). Such restrictive measures must include: (i) a process for vetting and approving persons at the broker-dealer or customer, as applicable, who will be permitted to use the trading system; (ii) maintaining the trading system in a physically secure manner; and (iii) restricting access to the trading system through effective mechanisms that validate identity. See 75 Fed. Reg. 69,804.

¹⁹ Rule 15c3-5(c)(2)(iv).

²⁰ Rule 15c3-5(d).

²¹ Rule 15c3-5(e).

of account activity to spot potentially manipulative or otherwise suspicious trading activity.

By virtue of this conduct, Stock USA violated SEC Rule 15c3-5, NASD Conduct Rules 3010 and 2110, and FINRA Rule 2010.

Failure to Make Memoranda Brokerage Orders

SEC Rule 17a-3(a)(6)(i) requires broker-dealers to make a memorandum of each brokerage order given or received for the purchase or sale of securities, whether executed or unexecuted. The memorandum must reflect, among other things, the terms of the order and any modification or cancellation thereof. FINRA Rule 4511 (and predecessor NASD Conduct Rule 3110) requires members to make and preserve books and records as required under applicable FINRA and SEC rules.

During the Relevant Period, Stock USA failed to make a memorandum of all orders entered through its third-party trading platform. Stock USA relied on the platform owner/licensing entity to provide a daily record of executed trades. The platform owner/licensing entity was not obligated to provide the daily record of executed trades to Stock USA. More importantly, the daily record did not reflect orders that had been cancelled or otherwise not executed.

Stock USA's failure to make and preserve a record of all brokerage orders entered through its third-party trading platform was in violation of SEC Rule 17a-3(a)(6)(i), FINRA Rule 4511 (after December 4, 2011), NASD Conduct Rule 3110 (before December 5, 2011), NASD Conduct Rule 2110, and FINRA Rule 2010. In addition, by failing to establish, implement and enforce a supervisory system, including written procedures, reasonably designed to ensure compliance with SEC Rule 17a-3(a)(6)(i) and related NASD/FINRA rules, Stock USA violated NASD Conduct Rules 3010 and 2110 and FINRA Rule 2010.

B. Stock USA also consents to the imposition of the following sanctions:

- (i) a censure;**
- (ii) a fine in the amount of \$200,000; and**
- (iii) an undertaking to provide three reports, written and oral, to FINRA on dates that are no more than six months, 12 months, and 18 months after the date of the Notice of Acceptance of this AWC, concerning the Firm's implementation of systems, policies, and procedures to address the supervision, surveillance, and record-keeping violations and deficiencies detailed herein, including, but not limited to, those relating to: (a) the monitoring of accounts for possible manipulative activity; (b) the performance of due diligence and periodic reviews in connection with FFI correspondent accounts; (c) access-control and surveillance requirements of SEC Rule 15c3-5, and (d) the preparation and maintenance of memoranda of brokerage orders. The written reports shall be**

certified by an officer of the Firm. Upon written request by the Firm and a showing of good cause, FINRA staff may extend the submission deadlines set forth herein.

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

Stock USA 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.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against it;
- 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; 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, Stock USA specifically and voluntarily waives any right to claim bias or prejudgment 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.

Stock USA 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

Stock USA 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 it; and**
- C. If accepted:**
 - 1. this AWC will become part of Stock USA's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;**
 - 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. Stock USA 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. Stock USA 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 Stock USA'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. Stock USA may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Stock USA understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Corrective Action Statement. This Corrective Action 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 Stock USA, certifies that a person duly authorized to act on Stock USA's 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 Stock USA has agreed to the provisions set forth in this AWC 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 Stock USA to submit this AWC.

3/16/2015
Date

Respondent
Stock USA Execution Services, Inc.

By: [Signature]

Name: Cara Chavira

Title: CEO

Reviewed by:

[Signature]

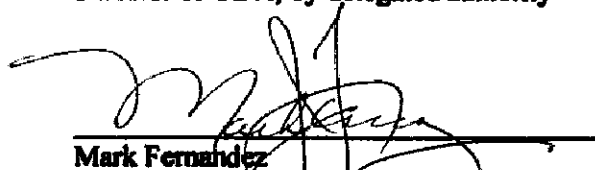
Dana S. Gloor, Esq.
Counsel for Respondent
Miles & Stockbridge P.C.
100 Light Street
Baltimore, Maryland 21202
Tel: (410) 727-6464
Fax: (410) 773-9125

Accepted by FINRA:

April 10, 2015

Date

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

A handwritten signature in black ink, appearing to read 'Mark Fernandez', is written over a horizontal line.

**Mark Fernandez
Senior Regional Counsel
FINRA Department of Enforcement
1100 Poydras Street, Suite 850
New Orleans, Louisiana 70163
Tel: (504) 522-6527
Fax: (202) 721-6522**

CORRECTIVE ACTION STATEMENT

Respondent Stock USA Execution Services, Inc. ("SUSA" or the "Firm") respectfully submits this Corrective Action Statement to accompany its Letter of Acceptance, Waiver and Consent ("AWC") with regard to the matter referenced above.

This corrective action statement is submitted by Stock USA Execution Services, Inc. It does not constitute factual or legal findings by FINRA, nor does it reflect the view of FINRA or its staff.

The Firm is committed to compliance with all applicable laws and regulations, and accordingly, it has invested substantial time and resources necessary to replace personnel in key positions, change its business, and improve its procedures. Specifically, the Firm has taken the corrective measures set forth below relating to the conduct described in the AWC document.

I. Changes in Firm management and business model.

In the summer of 2012, the Firm recognized that it needed to make changes to its business in order to comply more effectively with regulatory requirements. In May 2012, the Firm terminated the employment and registration of its then-President. It promoted the then-Chief Compliance Officer to the role of President, with the intent that he apply his compliance background to develop more robust, appropriate compliance procedures. When that appointment did not work as hoped, the Firm promptly hired a new President. The Firm began to change its business. The Firm no longer permits foreign financial institutions ("FFIs") to maintain master/sub or omnibus accounts through the Firm. The Firm requires that all accounts be opened directly with the Firm by the owner of the account/ assets.

The Firm continued to make significant organizational changes in an effort to bring its business into better compliance with the applicable rules. In July 2013, the Firm replaced the CCO. In August 2013, the Firm terminated the employment and registration of its then-Chief Operating Officer, who had been responsible for designing the system of supervision of trading, and for implementing that system. In March 2014, the Firm reorganized its top management once more. The Firm believes it has optimized the placement of people in key roles.

Further, in December 2013 - January 2014, the Firm eliminated two branches, and terminated the registrations of 5 registered representatives, so as to streamline and further define the Firm's business and reduce its supervisory burden. The Firm also reduced the number of trading platforms offered to its clients from four to one, which consolidates the source of trading information that the firm must review, and thereby increases the effectiveness of the firm's reviews.

II. Changes in Firm procedures.

As noted above, the Firm no longer permits FFI's to maintain master/sub or omnibus accounts through the Firm. The Firm requires that all accounts be opened directly with the Firm by the owner of the account/ assets. If the Firm determines to allow an FFI to maintain an account with the Firm, the Firm implements its procedures for conducting due diligence on those accounts and conducting a periodic review of the activity in the FFI's accounts.

The Firm has enhanced its systems and procedures for reviewing and supervising client trading, so that it is better able to detect, prevent and investigate potentially manipulative, suspicious or otherwise violative trading.

The Firm implemented pre-trade systems and controls to prevent the entry of orders that met risk criteria defined by the Firm, or that failed to comply in other respects with regulatory requirements or Firm policies. The Firm has also developed and implemented a series of post-trade review procedures designed to detect possible violations. The Firm takes action to prevent potential improprieties, including by restricting and/or closing accounts that engage in trading that gives rise to concerns.

The Firm has designated specific personnel to conduct the reviews on a specific schedule, and has developed procedures for memorializing the reviews and any follow-up conducted.

The Firm has developed procedures to ensure that it obtains from its clearing firms and other vendors required records relating to the Firm's customers' trade orders and transactions, and filed reports. It has improved its filing system, which should ensure that it can locate files promptly, and that it retains records for the appropriate time period.