

FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20090170083-02

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

RE: Spartan Securities Group, LTD., Respondent
Broker-Dealer
CRD No. 104478

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Spartan Securities Group, LTD. (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 the firm alleging violations based on the same factual findings described herein.¹

I.

ACCEPTANCE AND CONSENT

- A. The firm 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

The firm has been a member of FINRA since July 25, 2001, and its registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

The firm understands that its disciplinary history may be a factor that will be considered in deciding whether to accept this AWC. The firm has the following relevant disciplinary history:

On February 11, 2009, the firm agreed to an AWC, in matter 20070099249, involving the following fines: (1) a \$10,000 fine for various trade reporting

¹ FINRA notes that while potential violations of NASD Rule 2320 were also identified in this review, these potential violations are the subject of a separate investigation, matter 20100221930, and therefore the potential violations are not the subject of this AWC.

violations, in violation of NASD Rules 4632 and 6620, (2) a \$7,500 fine for violations of NASD Rule 6955(a); (3) a \$1,500 fine for SEC Rule 10b-10 violations; (4) a \$2,500 fine for books and records violations of SEC Rule 17a-3 and 17a-4; (5) a \$7,500 fine for reporting violations pursuant to Rule 6130(d); and (6) a \$10,000 fine for SEC Rule 606 violations.

FACTS AND VIOLATIVE CONDUCT

In connection with matter 20090170083, the staff conducted the 2009 TMMS Examination wherein the staff reviewed the items set forth on Exhibit 1, which is attached hereto and incorporated herein by reference, primarily for trade dates September 8 through September 18, 2009 (the "review period"). In the course of this review, the staff found:

1. During the review period, the firm executed two short sale transactions in Reportable Securities and failed to report each of these transactions to the FINRA/Nasdaq Trade Reporting Facility ("FNTRF") with the correct symbol indicating whether the transaction was a short sale or a short sale exempt transaction. The conduct described in the preceding sentence constitutes separate and distinct violations of FINRA Rule 6182. Additionally, during the review period, the firm reported nine short sales as long to the FNTRF. The conduct described in the preceding sentence constitutes separate and distinct violations of FINRA Rule 6624.
2. During the review period, firm failed to report to the FNTRF the correct symbol indicating the capacity in which the firm executed 28 transactions in Reportable Securities, incorrectly reported three transactions to the FNTRF and failed to report one transaction to the FNTRF. The conduct described in the preceding sentence constitutes separate and distinct violations of FINRA Rule 7230A. Additionally, the firm reported 15 transactions which it was not required to report to the FNTRF, incorrectly reported 15 reports to the FNTRF, and failed to submit a cancellation for two reports to the FNTRF. The conduct described in the preceding sentence constitutes separate and distinct violations of FINRA Rule 7330.
3. During the review period, the firm transmitted to OATS 21 reports that contained *inaccurate, incomplete, or improperly formatted data*. These *inaccurate and/or incomplete* reports represented 53 percent of all reports (40) reviewed during the review period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.
4. During the review period, the firm, on 99 occasions, accepted a short sale order in an equity security from another person, or effected a short sale in an equity security for its own account, without (1) borrowing the security, or entering into a bona-fide arrangement to borrow the security; or (2) having reasonable grounds to believe that the security could be borrowed so that it could be delivered on the date delivery is

due; and (3) documenting compliance with SEC Rule 203(b)(1) of Regulation SHO. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 203(b)(1) of Regulation SHO.

5. During the review period, the firm, in 12 instances, failed to disclose the reported price and the markup/markdown on the customer confirmation, in ten instances failed to disclose the reported price and the correct markup/markdown on the customer confirmation, in four instances failed to disclose the reported price on the customer confirmation, and in two instances failed to disclose the reported price, market maker status and the correct markup/markdown on the customer confirmation. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 10b-10.
6. During the review period, the firm, in six instances, failed to provide an order memorandum or a proprietary ledger, in two instances failed to provide a customer account statement, in two instances failed to provide a complete customer order memorandum, and in ten instances failed to document the correct time of entry, time of execution, execution price, and/or terms and conditions on the customer order memorandum. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 17a-3 and NASD Rule 3110.
7. During the review period, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to certain applicable securities laws and regulations, and/or the Rules of NASD. At a minimum, adequate written supervisory procedures addressing quality of markets topics should describe the
 - (a) specific identification of the individual(s) responsible for supervision;
 - (b) the supervisory steps and reviews to be taken by the appropriate supervisor;
 - (c) the frequency of such reviews; and
 - (d) how such reviews shall be documented.

The firm's written supervisory procedures failed to provide for one or more of the four above-cited minimum requirements for adequate written supervisory procedures, in the following subject areas:

Supervisory System, Procedures & Qualifications: Designation of principals [(a), (c), (d)]; Designation of Principals for member's trading areas [(a), (c), (d)]; Designation of OSJ [(a), (c), (d)]; Designation of Principals in each OSJ [(a), (c), (d)]; and Personnel are properly registered and qualified [(a), (c), (d)].

Order Handling: Disclosure of Order Routing [(b), (c)]; and Disclosure of Order Execution [(b), (c)].

Best Execution: Execution of Orders as Riskless Principal [(a), (b), (c), (d)]; and 3-Quote Rule [(b)].

Anti-Intimidation/Coordination: Procedures to prevent occurrence [(b)]; and Educating personnel [(a), (c), (d)].

Trade Reporting: Trade Modifiers [(d)]; Reporting riskless principal trades [(a), (b), (c), (d)]; Entering Orders into Nasdaq [(a), (b), (c), (d)]; and Third-party reports on behalf of member [(a), (b), (c), (d)].

Sale Transactions: SEC Rule 200 (a) & (g) [(b)]; Prompt Delivery [(a), (b), (c), (d)]; Refrain from accepting short sales after fails [(a), (b), (c), (d)]; and Naked Short Selling Anti-fraud Rule [(a), (b), (c), (d)]; Report sales to TRF [(a), (b), (c), (d)].

Other Trading Rules: "Backing Away" [(b), (d)]; Refrain from entering a quote on Nasdaq that would lock or cross an existing quote [(a), (b), (c), (d)]; Maintaining identical quotes [(a), (b), (c), (d)]; Ensure Accuracy and Integrity of Orders [(a), (b), (c), (d)]; Review & Verify Clearly Erroneous Trades are Filed Accurately [(b)]; Review & Detect Order Entry Errors [(a), (b), (c), (d)]; and Accurately Identify Buy, Short Sale, and Long Sale Information When Entered In Nasdaq System [(a), (b), (c), (d)].

OATS: Clock Synchronization [(b), (c)]; and OATS consistent with TRF [(a), (b), (c), (d)].

Other Rules: Books & Records [(a), (b), (c), (d)]; Sub-Penny Rule: Less than \$.01 [(a), (b), (c), (d)]; Sub-Penny Rule: Less than \$.0001 [(a), (b), (c), (d)]; and Review For Compliance of Incoming, Outgoing, and Internal Electronic Communications [(b) (c)].

The conduct described in this paragraph constitutes a violation of FINRA Rule 2010 and NASD Rule 3010.

8. During the review period, the firm failed to provide documentary evidence that during September 2009, it performed the supervisory reviews set forth in its written supervisory procedures concerning:

Supervisory System, Procedures & Qualifications Order Handling: Personnel are properly registered and qualified.

Order Handling: Limit Order Protection, Market Order Protection, and Monitor trading activity for 1% quarterly volume.

Best Execution: Execution of orders as principal, Customer block-sized orders, Ensuring best execution obligations are met and that shares are allocated in a fair and non-discriminatory manner, and 3-Quote Rule.

Anti-Intimidation/Coordination: Procedures to prevent occurrence, and Educating personnel.

Trade Reporting: Report trades accurately and timely, Trade Modifiers, Riskless principal trades, and Accepting/Matching trades.

Sale Transactions: SEC Rule 200(a) & (g), and Locates.

Other Trading Rules: Trading Halt, "Backing Away", and Maintain physical security & Prevent unauthorized information into Nasdaq/FINRA systems.

OATS: Clock Synchronization, Timely & Accurate, Rejected OATS, and Routed Order Identification Numbers.

Other Rules: Review for Compliance of Incoming, Outgoing, and Internal Electronic Communications.

The conduct described in this paragraph constitutes a violation of FINRA Rule 2010 and NASD Rule 3010.

B. The firm also consents to the imposition of the following sanctions:

A **censure** and a **fine of \$52,500** comprised of a fine of \$7,500 for violations of FINRA Rule 6182, a fine of \$10,000 for violations of FINRA Rules 7230A and 7330, a fine of \$10,000 for violations of FINRA Rule 7450, a fine of \$5,000 for violations of SEC Regulation SHO Rule 203(b), a fine of \$7,500 for violations of SEC Rule 10b-10, a fine of \$7,500 for violations of SEC Rule 17a-3 and NASD Rule 3010, and a fine of \$5,000 for violations of FINRA Rule 2010 and NASD Rule 3010.

The firm also consents to an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraph 7. Within 60 business days of acceptance of this AWC by the NAC, a registered principal of the Respondent shall submit to the **COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850**, a signed, dated letter, or an e-mail from a work-related account of the registered principal to **MarketRegulationComp@finra.org**, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in this paragraph; and, (3) the date the revised procedures were implemented.

The firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

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

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

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against the firm;
- 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 NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, 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.

The firm 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

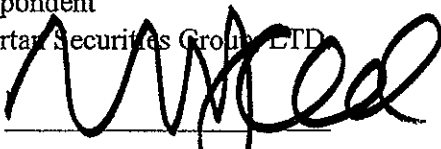
The firm understands that:

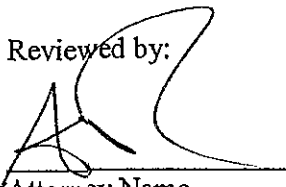
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (“ODA”), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
- C. If accepted:
 - 1. this AWC will become part of the firm’s permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the firm;
 - 2. this AWC will be made available through FINRA’s public disclosure program in response to public inquiries about the firm’s disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. The firm 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. The firm 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 the firm’s right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm 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 it has agreed to the AWC's 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.

11-11-2011
Date

Respondent
Spartan Securities Group, LTD.
By: 
Name: MICAH J. ELDRD
Title: CEO

Reviewed by: 
Attorney Name
Counsel for Respondent
Firm Name

Accepted by FINRA:

1/3/12
Date

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


Thomas R. Gira
Executive Vice President
Department of Market Regulation

2009 Market Regulation Examination Samples
Spartan Securities Group, LTD ("MICA")
Exam No. 20090170083
Sample Source/Period*: Trade Date(s) 9/8/09- 9/18/09

<u>Sample</u>	
<u>Size</u>	<u>Sample Description</u>
223	Sales reviewed for compliance with SEC Rule 200(g) long/short sale recording requirements
134	Short Sales reviewed for compliance with SEC Rule 203(b) security location requirements
0	Sales reviewed for compliance with SEC Rule 204 fail-to-deliver requirements
34	Sell trades reported to a TRF or OTCRF for compliance with sale indicator requirements, FINRA Rules 6182 or 6624
55	Sell orders entered into Nasdaq Exchange execution system for compliance with Nasdaq Rule 4755(a)(1)(A) long/short reporting requirements
321	Buy and Sell orders entered into Nasdaq Exchange execution system for compliance with Nasdaq Rule 4611 capacity reporting requirements
N/A	Sell orders entered into BATS Exchange execution system for compliance with BATS Rule 11.19 long/short reporting requirements
N/A	Limit orders for NMS securities in which the member acts as an exchange market maker for compliance with the display requirements of SEC Rules 602 and 604, and Nasdaq Rule 3390
52	Orders for compliance with best execution requirements of NASD Rule 2320
20	Held orders from the Held Order Protection Review
5	Not Held orders from the Not Held Order Review
0	Order executed with a .PRP (Prior Reference Price) trade modifier
27	Customer orders in OTC equity securities for compliance with NASD Rule 3110(b) requirements to ascertain and document best interdealer market related to execution of orders
20	Orders for compliance with order protection requirements of NASD Rules 2110, IM-2110-2, 2111, and Nasdaq Rules 2110, IM-2110-2, and 2111
0	Open Limit orders to buy and/or open Stop orders to sell securities that traded ex-dividend for compliance with NASD Rule 3220 and Nasdaq Rule 4761
0	Order memoranda and Net Trading agreements for compliance with NASD Rule 2441 requirements
50	Orders in securities required to be submitted to OATS for compliance with FINRA Rules 7440 and 7450, and Nasdaq Rules 6954 and 6955 requirements
35	Customer confirmations prepared and maintained in connection with select samples for compliance with SEC Rule 10b-10
N/A	Orders for NMS securities in which the Firm acts as a market center for compliance with SEC Rule 605 order classification requirements

* unless otherwise noted

2009 Version 2.0 - September 1, 2009

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Modified SKhan 03/30/2010

2009 Market Regulation Examination Samples
Spartan Securities Group, LTD ("MICA")
Exam No. 20090170083
Sample Source/Period*: Trade Date(s) 9/8/09- 9/18/09

<u>Sample Size</u>	<u>Sample Description</u>
N/A	Data sets published for Month Year monthly order execution report for compliance with SEC Rule 605 requirement to publish accurate data (a 'data set' encompasses all required statistical data for single security and order type/size category as described in SEC Rule 605)
N/A	Quarterly Routing Report for compliance with SEC Rule 606 requirements
18	CRD registration records for persons conducting and/or supervising Firm's trading and/or market making activities for compliance with NASD Rule Series 1020, 1030, 1040; Nasdaq Rule Series 1020, 1030, 1040; and BATS Rule 11.4
27	Customer orders in OTC equity securities for compliance with NASD Rule 3110(b) requirements to ascertain and document best interdealer market related to execution of orders
2	Disclosures to customers relating to trading in the Extended Hours session for compliance with FINRA Rule 2265 and Nasdaq Rule 4631
104	Records prepared and maintained in connection with the above samples for compliance with SEC Rules 17a-3 and 17a-4, and NASD Rule 3110
206	Trades reported to a TRF or OTCRF for compliance with FINRA Rules 6380A and 7230A or 6622 and 7330
N/A	Member's "Regular & Rigorous" review procedures regarding order execution quality for compliance with NASD Rules 2320 and 3010
All Provided	Member's supervisory and operational policies and procedures and documentation evidencing execution of the policies and procedures for compliance with SEC Regulation NMS Rule 611
All Provided	Member's supervisory system, written supervisory procedures ("WSPs") and documentation evidencing execution of the WSPs for compliance with NASD Rule 3010, Nasdaq Rule 3010, or BATS Rule 5.1 requirements
0	Trading Halts declared during the on-site portion of the examination for which FINRA Staff observed the operation of the ATS.
0	Trades reported to the ADF/TRACS for compliance with FINRA Rule 6282
0	ADF orders and quotes accessed by other market participants for compliance with FINRA Rule 6250 requirements to submit Order and Order Response reports

* unless otherwise noted

2009 Version 2.0 - September 1, 2009

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Modified SKhan 03/30/2010