

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010022017301**

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

RE: The Vertical Trading Group, LLC (a/k/a The Vertical Group) (BD No. 104353)

Glenn Matthew Chaleff (CRD 4014721), and

Mark McCabe Duncan (CRD 3094678), Respondents

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, The Vertical Trading Group, LLC (the "firm" or "Vertical"), Glenn Chaleff ("Chaleff"), and Mark Duncan ("Duncan") (collectively, "Respondents") submit 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 Respondents alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondents hereby accept and consent, 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

Vertical has been a FINRA member firm since 2001. Its principal place of business is in New York, NY. It currently has two branch offices and employs approximately 45 registered representatives. The firm acts as a market maker, primarily in over-the-counter securities. Its customer base is comprised primarily of other broker-dealers and institutional clients.

Chaleff was first registered with a FINRA member firm in 1999. He was registered with five different firms before joining Vertical, where he was registered from February 19, 2008, until August 16, 2011. He is currently registered with a FINRA member firm. At all relevant times, Chaleff was Vertical's Chief Compliance Officer and Anti-Money Laundering ("AML") Compliance Officer. He has Series 7, 24, 55, and 63 licenses.

Duncan was first registered with a FINRA member firm in 1999. He was registered with six different member firms before becoming registered as a Series 7, 24, 55, and 63 with Vertical on

January 25, 2008. Duncan's registration with Vertical was terminated on August 16, 2011. Duncan is currently registered with two FINRA member firms.

OVERVIEW

Between March 2010 and September 2010, Vertical and Duncan participated in the unlawful distributions of the shares of four issuers, whose securities were not registered and were not subject to an applicable registration exemption. The firm and Duncan's conduct violated FINRA Rule 2010 by virtue of violating Section 5 of the Securities Act of 1933.

Between January 1, 2009 and June 30, 2011 (the "review period"), the firm and Chaleff failed to establish and maintain a reasonable supervisory system and written supervisory procedures designed to achieve compliance with Section 5 of the Securities Act, in violation of NASD Rules 3010(a) and (b) and FINRA Rule 2010.

The firm and Chaleff also failed to establish and implement an adequate AML program. Vertical's policies, procedures, and internal controls were not reasonably designed to monitor for, detect, and cause the reporting of suspicious transactions, as required by NASD Rule 3011(a) (for conduct before January 1, 2010) and FINRA Rule 3310(a) (for conduct beginning January 1, 2010). In addition, the firm and Chaleff failed to establish a due diligence program for customers which were foreign financial institutions with delivery-versus-payment (DVP) correspondent accounts maintained at the firm during the review period, in violation of NASD Rule 3011(b) (for conduct before January 1, 2010) and FINRA Rules 3310(b) (for conduct beginning January 1, 2010) and 2010.

FACTS AND VIOLATIVE CONDUCT

Sales of Unregistered Shares of Four Issuers

Duncan was the broker of record and trader on a corporate account at Vertical that was opened in February 2010. From March to September 2010, Duncan's customer deposited and then promptly sold more than \$10 million worth of four thinly traded securities of speculative issuers that had little or no operating histories. The securities the customer sold were not registered and were not subject to an exemption from registration.

In each instance, the customer represented that it had converted debt that the issuer owed to third parties into equity of the issuer. The customer purportedly accomplished this by purchasing from a third party debt that was supposedly owed to it by the issuer. The customer signed multiple "stock purchase agreements" with the third-party lender, who was a creditor of the issuer. The customer then instructed the transfer agent to issue share certificates that corresponded to the amount of shares convertible under the loan with the issuer. After receiving the share certificates, the customer deposited them into his corporate account at Vertical and promptly commenced selling the shares into the public market. The customer held the shares in his account for a short period of time, ranging from a few days to a few weeks, before Vertical sold the shares into the market.

The customer repeated this debt-to-equity conversion process multiple times with the following four securities:

1. Encounter Technologies, Inc. (ENTI)

Encounter Technologies Inc. (ENTI) provided online music entertainment. As of June 30, 2010, ENTI had \$118,951 in cash, \$451 in revenues, and a total net loss of \$70,131 during the preceding quarter, according to a report it filed with OTC Markets. ENTI had just over 2 billion shares outstanding as of April 9, 2010, according to a report it filed with OTC Markets. ENTI circulated press releases beginning in February 2010 touting its products and website.

From March through August 2010, using a debt conversion strategy, Vertical's customer sold 3,085,015,591 shares of ENTI, a billion more shares than the company's purported total shares outstanding, for proceeds of more than \$6.5 million. In just three months, from March through May 2010, the customer sold 1.7 billion shares of ENTI for \$5.8 million. On May 12, 2010, the customer sold nearly 74 million shares of ENTI for proceeds of \$526,190, its largest single trading day in ENTI, which constituted approximately 42% of the market volume.

Between March and August 2010, the customer made more than 25 separate ENTI share deposits into his account. The customer submitted "incoming stock questionnaire" forms generated by Vertical for each tranche of shares deposited into the account via a physical certificate, together with a legal opinion from the issuer's counsel and a third-party "stock purchase agreement" between the customer and the issuer's creditor. The purchase price for the securities was consistently significantly below the then current market price for ENTI's shares, resulting in large profits for the customer.

2. Strategic Rare Earth Metals, Inc. (SREH)

SREH was formed in 1999 under a different name, becoming Strategic Rare Earth in 2006. In 2008, SREH terminated its reporting obligations with the SEC. It had not filed reports with the SEC since late 2006. For the quarter ending June 2010, SREH reported to OTC Markets having assets of \$196,842, liabilities of more than \$3.3 million, and revenues of \$130,489. According to an unaudited report filed with OTC Markets, SREH had 3.65 billion shares outstanding (just 1.6 billion of which were free trading shares), as of July 26, 2010.

Repeating the debt-to-equity conversion strategy, from June 1 to September 15, 2010, Vertical's customer deposited into his account and sold just over 2.4 billion shares of SREH for \$2,281,140, which constituted over 65% of the total shares outstanding. The customer made approximately a dozen separate physical certificate deposits of SREH into his account. The customer submitted "incoming stock questionnaire" forms generated by Vertical for each tranche of shares deposited into the account via a physical certificate, together with a legal opinion from the issuer's counsel and a third-party "stock purchase agreement" between the customer and the issuer's creditor.

3. Elysium Internet, Inc. (EYSM)

Elysium was an Internet-based media company formed in 1983, and is the result of a 2008 reverse merger. It had 145,107,595 shares outstanding as of March 22, 2010, according to an SEC filing, which increased to over 4.2 billion shares by November 17, 2010, according to a filing it made with OTC Markets, after ending its reporting obligations with the SEC. Elysium had revenues of \$101,088 and net losses of \$104,202 for the nine months ended August 31, 2010, with an accumulated deficit of more than \$10 million.

By buying debt and converting it to equity, Vertical's customer deposited 1.69 billion shares of EYSM into his account and then sold his position between July and September 2010 for proceeds of \$858,656. The customer's sales constituted approximately 40% of the company's shares outstanding in November 2010. The customer made approximately ten separate physical certificate deposits of EYSM into his account. He also submitted "incoming stock questionnaire" forms generated by Vertical for each tranche of shares deposited into the account via a physical certificate, together with a legal opinion from the issuer's counsel and a third-party "stock purchase agreement" between the customer and the issuer's creditor.

4. DeGama Software Solutions, Inc. (DGMA)

DeGama Software Solutions ("DeGama" or "DGMA") was formed as the result of a 2008 reverse merger. DeGama claimed that it marketed and developed applications that helped persons share information through mobile devices. In a report for the quarter ended June 30, 2010, filed with OTC Markets, DGMA disclosed that it had no revenues, assets of \$14,037, and a net loss of \$320,688. According to a filing DGMA made with OTC Markets, it had approximately 2.5 billion total shares outstanding, as of September 14, 2010.

In just over a month, from August 13 to September 16, 2010, Vertical's customer sold approximately 450 million shares of DGMA for proceeds of \$767,643. The customer acquired his shares beginning in early August 2010 by purchasing convertible debt from the company, which he subsequently converted to equity shares of DGMA, and then promptly began selling those shares. The shares the customer deposited and sold accounted for approximately 18% of the total shares outstanding, as of September 14, 2010. The customer submitted "incoming stock questionnaire" forms generated by Vertical for the shares deposited into the account via a physical certificate, together with a legal opinion from the issuer's counsel and a third-party "stock purchase agreement" between the customer and the issuer's creditor.

Vertical and Duncan Failed to Fulfill Their Obligations Under the Securities Laws

Section 5 of the Securities Act of 1933 prohibits the offer or sale of any security unless there is a registration statement in effect as to that security or there is an exemption available for the transaction. Exemptions to the registration requirement of Section 5 are construed narrowly. A broker who sells securities in violation of Section 5 violates FINRA Rule 2010.

The shares of ENTI, SREH, EYSM, and DGMA that the customer acquired were not issued pursuant to a registration statement, and were restricted from re-sale, absent an applicable

exemption from registration. The customer claimed exemption under Section 3(a)(9) of the Securities Act. However, no such exemptions applied to the customer's re-sales. Among other things, the ability to tack onto the holding period of the seller under Rule 144 and Section 3(a)(9) is not available where the debt is acquired from the issuer or an affiliate or when the exemption is used as a scheme to avoid registration. The two exemptions most frequently invoked are those under Sections 4(1) and 4(4) of the Securities Act were also not available. The first exemption applies to transactions not involving "an issuer, underwriter or dealer." The customer met the definition of an underwriter because he acquired his shares with a view towards immediate distribution. He consistently bought the debt through multiple separate purchases; converted the debt into equity shares; deposited multiple share certificates in his Vertical account; and then immediately began selling the shares, which, in total, constituted large percentages of the issuers' shares outstanding. Duncan and the firm knew, or reasonably should have known, that the customer utilized a strategy of converting debt to equities in smaller increments over multiple days in order to avoid qualifying as a control person, which would have resulted in strict volume limitations on his ability to liquidate the shares.

The exemption under Section 4(4) of the Securities Act for "brokers' transactions" is also inapplicable. In order to claim the brokers' exemption, brokers must undertake reasonable efforts to assure themselves that the transactions do not violate Section 5, particularly when confronted by red flags indicative of an unregistered distribution. Brokers cannot delegate this responsibility by relying on others to make the appropriate determination when the circumstances indicate the need for a thorough investigation. In this case, the red flags indicative of an unregistered distribution of securities included: (1) the customer's trading in the account focused on penny stocks; (2) he deposited large positions in thinly traded, little known securities; (3) he immediately liquidated his positions; and (4) he wired the funds out of his account. The firm and Duncan had access to information that showed that the issuers had little or no operating histories; had little revenue and few assets, sometimes combined with large losses; had engaged in recent reverse mergers; and ceased their reporting obligations with the SEC.

Vertical and Duncan failed to conduct an adequate independent inquiry to determine whether the shares of the four securities were freely tradable. Vertical and Duncan failed to undertake sufficient efforts to ascertain whether the four stocks could be properly sold under the claimed exemption, and accordingly did not satisfy their duty to conduct a reasonable inquiry, which is a crucial part of the brokers' exemption. Accordingly, Vertical and Duncan engaged in the distribution of \$10 million in unregistered securities. By violating Section 5 of the Securities Act of 1933, Vertical and Duncan violated FINRA Rule 2010.

Vertical and Chaleff Maintained an Inadequate Supervisory System and Written Supervisory Procedures for Compliance with Section 5

NASD Rule 3010(a) requires member firms to "establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated persons that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD Rules." Rule 3010(b) requires that firms document the system in the firm's written supervisory procedures.

The firm and Chaleff did not establish and maintain adequate supervisory systems and procedures reasonably designed to comply with Section 5. Chaleff was responsible for Vertical's written supervisory procedures. By March 2010, he also was the designated supervisor for sales and trading at the firm and accordingly responsible for establishing and maintaining a system to supervise the activities of the firm's traders so as to achieve compliance with Section 5. The firm's written procedures for compliance with Section 5 generally addressed the sale of control or restricted stock under SEC Rules 144 and 145. The procedures briefly described the broad purposes of Rules 144 and 145, but provided for little or no supervisory structure to ensure overall compliance with Section 5, particularly given the nature of the firm's business, which included liquidating large volumes of speculative, thinly traded stock on behalf of its customers.

By March 2009, the firm revised its procedures to incorporate the substance of Notice to Members 09-05 ("Unregistered Resales of Restricted Securities"), which was released in January 2009, in order to remind firms of their obligation to determine whether securities are eligible for public sale. NTM 09-05 and the firm's revised procedures listed the red flags indicative of an unregistered distribution of securities, which included the following that were present with respect to Duncan's customer's sales of the four securities:

- "A customer opens a new account and delivers physical certificates representing a large block of thinly traded or low priced securities." At Vertical, the customer opened his account in late February 2010, and promptly commenced depositing certificates of low-priced securities in March 2010.
- "The customer has a pattern of depositing physical certificates, immediately selling the shares, and then wiring out the proceeds." Upon opening his account at Vertical, Duncan's customer immediately established a pattern of depositing certificates and selling the shares. He also made a total of 14 wire transfers over a six-month period, totaling over \$14 million, before his account was closed.
- "A customer deposits share certificates that are recently issued or represent a large percentage of the float for the security." At Vertical, all of the customer's share certificates were issued just a few days before he deposited them. In the case of ENTI, the customer sold more shares than the issuer disclosed were outstanding. In the other three instances, the customer sold a total of between approximately 18% and 65% of the shares outstanding.
- "There is a sudden spike in investor demand for, coupled with a rising price in, a thinly traded or low-priced security." In each instance, market volume increased sharply, accompanied by increases in share price, at least partly the result of Internet promotion activity.

The firm and Chaleff failed to implement the firm's written supervisory procedures which allowed the customer to sell large volumes of the four thinly-traded securities. They also did not identify and adequately address the multiple red flags signaling that the customer's conduct was

a plan to evade compliance with Section 5. Accordingly, for their supervisory deficiencies, Vertical and Chaleff violated NASD Rule 3010(a) and (b) and FINRA Rule 2010.

Anti-Money Laundering Requirements

FINRA Rule 3310 (known as NASD Rule 3011 until January 1, 2010) requires all member firms to "develop and implement a written anti-money laundering program reasonably designed to achieve and monitor the firm'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."

Title 31 U.S.C. § 5318(g) authorizes the Department of the Treasury to issue suspicious activity reporting requirements for broker-dealers. The Department of the Treasury issued the implementing regulation, 31 C.F.R., § 103.19(a)(1), on July 1, 2002. It provided that, with respect to any transaction after December 30, 2002, "[e]very broker or dealer in securities within the United States . . . shall file with FinCEN . . . a report of any suspicious transaction relevant to a possible violation of law or regulation." Section (a)(2) of that regulation specifically provides:

A transaction requires reporting . . . if it is conducted or attempted by, at, or through a broker-dealer, it involves or aggregates funds or other assets of at least \$5,000, and the broker-dealer knows, suspects, or has reason to suspect that the transaction (or a pattern of transactions of which the transaction is a part):

- (i) Involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity (including, without limitation, the ownership, nature, source, location, or control of such funds or assets) as part of a plan to violate or evade any federal law or regulation or to avoid any transaction reporting requirement under federal law or regulation;
- (ii) Is designed, whether through structuring or other means, to evade any requirements of this part or of any other regulations promulgated under the Bank Secrecy Act, . . . ;
- (iii) Has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and the broker-dealer knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction; or
- (iv) Involves use of the broker-dealer to facilitate criminal activity.

In April 2002, FINRA issued Notice to Members ("NTM") 02-21, which reminded broker-dealers that they were required to establish and implement AML programs designed to achieve compliance with the Bank Secrecy Act and the regulations promulgated thereunder. The Notice further advised broker-dealers that their AML procedures must address a number of areas including monitoring of account activities, "including but not limited to, trading and the flow of

money into and out of accounts." In August 2002, FINRA issued NTM 02-47, which set forth the suspicious activity reporting rule promulgated by the U.S. Department of the Treasury for the securities industry. This NTM further advised broker-dealers of their duty to file a SAR (Suspicious Activity Report) for any suspicious transactions occurring after December 30, 2002.

1. Vertical's AML program was not reasonably designed to monitor for, detect, and cause the reporting of suspicious activities

Vertical's AML policies, procedures, and internal controls were not reasonably designed to monitor for, detect, and cause the reporting of suspicious transactions, as required by NASD Rule 3011(a) and FINRA Rule 3310(a). During the review period, Vertical's AML systems and procedures failed to address the inherent risks associated with liquidations by customers of multiple thinly-traded, speculative OTCBB and Pink Sheet securities of issuers with little or no operational histories and minimal revenues. Based on the nature and type of securities its customers traded, the firm should have had an AML program that was reasonably designed to monitor for, detect, and report such suspicious trading activity associated with high volumes of stock liquidations in low-priced securities, but did not.

Vertical and Chaleff failed to implement its existing AML policies and procedures, which identified specific activities that indicated potentially suspicious activity, including: (a) "trading that constitutes a substantial portion of all trading for the day in a particular security," (b) "heavy trading in low-priced securities;" and (c) "customer engages in transactions involving certain types of securities, such as penny stocks, . . . which have been used in connection with fraudulent schemes . . ." The firm's procedures go on to caution that "[s]uch transactions may warrant further due diligence to ensure the legitimacy of the customer's activities." The firm relied in part on exception reports from its clearing firm to monitor for suspicious activity. Chaleff also monitored customers' trading on an ongoing basis by randomly reviewing customers' trading to look for volume spikes in trading but he failed to identify any red flags. Furthermore, the firm had no process to establish parameters that would trigger a review and Chaleff's implementation, through random reviews, did not allow him the opportunity to discover patterns of potentially manipulative trading.

By March 2010, Vertical amended its AML procedures to include in its list of red flags of potentially suspicious activity whether a customer "engages in suspicious activity involving the practice of depositing penny stocks, liquidating them, and wiring proceeds. A request to liquidate shares may also represent engaging in an unregistered distribution of penny stocks which may also be a red flag." Even after this specific addition to its AML procedures (which was the only red flag typed in bold lettering in the procedures), the firm and Chaleff did not adequately inquire into the liquidation activity in these four low-priced securities.

Additionally, the firm failed to address red flags indicating potentially suspicious activity related to correspondent accounts it maintained for foreign financial institutions. The firm had at least two Swiss-based customers that were private banks and asset managers, which predominantly sold large volumes of low-priced OTCBB and Pink Sheet securities through its DVP accounts at Vertical. Vertical did not receive the securities directly from the customers and all of the securities that they sold were custodied at one or more other FINRA member firms. These two

customers generally sold shares of the same low-priced securities, frequently on the same day. Both liquidated shares of dozens of speculative securities that had little or no operational histories and minimal revenues. The customers frequently sold securities during periods of Internet activity promoting the stocks and reaped millions in proceeds from their selling activity, the vast majority of which occurred after the commencement of the Internet-based promotional campaigns. During the review period, these two entities combined to generate more than \$63 million in proceeds from their sales of eight of the dozens of securities that they sold through their DVP accounts at Vertical.

Vertical received trading instructions from persons at these foreign institutions who were authorized to communicate orders to Vertical. Two such persons at one of the institutions had been disciplined by Canadian securities regulators for liquidating low-priced, speculative securities without first engaging in due diligence into the issuers' operations. The firm and Chaleff knew of these traders' disciplinary histories but did not take sufficient steps to monitor their trading activities on behalf the foreign institution.

Based on the above, the firm had inadequate procedures to monitor, detect, and report potentially suspicious trading activity tailored to its penny-stock liquidation business. Furthermore, while the written procedures were inadequate to address the risks posed by this business model, the firm still failed to implement the portions of the AML procedures that were germane to this potentially suspicious trading activity. As a result, the firm had no meaningful process for investigating suspicious activity and filing appropriate SARs, as the facts and circumstances warranted. Accordingly, Vertical and Chaleff violated NASD Rule 3011(a) (for conduct before January 1, 2010) and FINRA Rules 3310(a) (for conduct beginning January 1, 2010) and 2010.

2. Vertical Failed to Establish a Due Diligence Program for Correspondent Accounts of Foreign Financial Institutions

31 C.F.R. §103.176 (changed to 31 C.F.R. §1010.610, effective March 1, 2011) requires covered financial institutions, such as broker-dealers, to "establish a due diligence program that includes appropriate, specific, risk-based, and, where necessary, enhanced policies, procedures, and controls" reasonably designed to detect and report suspected money laundering activity by a foreign financial institution through a correspondent account. The due diligence should encompass, for example, an assessment of the money laundering risks presented by the correspondent accounts for the foreign financial institutions, including the nature of the foreign institution's business and the markets it serves and "the type, purpose, and anticipated activity" of the account. A broker-dealer must apply risk-based controls to such correspondent accounts, which includes periodic reviews of the account.

Despite having at least two correspondent DVP accounts for foreign financial institutions, Vertical and Chaleff did not implement an appropriate due diligence program. The firm's written supervisory procedures called for:

- determining whether the foreign accounts are subject to enhanced due diligence;

- assessing money laundering risks that the accounts posed, based on certain listed risk factors, which included the nature of the foreign customer's business; and
- applying risk-based policies, procedures, and controls to each account, which should include a periodic review of their activity.

The written supervisory procedures also required the firm to conduct a risk-based assessment that considered certain factors, including the nature of services that the firm provided to the account (in this case, liquidations of multiple low-priced stocks that generated tens of millions of dollars for the two foreign customers). The firm failed to adequately implement these due diligence procedures.

Accordingly, Vertical and Chaleff violated NASD Rule 3011(b) (for conduct before January 1, 2010) and FINRA Rules 3310(b) (for conduct beginning January 1, 2010) and FINRA Rule 2010.

Conclusion

Vertical violated NASD Rules 3010(a) and (b) and 3011(a) and (b) (for conduct before January 1, 2010) and FINRA Rules 3310(a) and (b) (for conduct beginning January 1, 2010) and 2010 by failing to fulfill its anti-money laundering obligations, distributing unregistered shares of ENTI, SREH, EYSM, and DGMA, and by failing to have an adequate supervisory system and written supervisory procedures for compliance with Section 5 of the Securities Act of 1933.

Chaleff violated NASD Rules 3010(a) and (b) and 3011(a) and (b) (for conduct before January 1, 2010) and FINRA Rules 3310(a) and (b) (for conduct beginning January 1, 2010) and 2010 for AML-related deficiencies and by failing to have in place a reasonable supervisory system and written supervisory procedures for compliance with Section 5.

Duncan violated FINRA Rule 2010 by engaging in the distribution of unregistered securities.

B. Respondents also consent to the imposition of the following sanctions:

1. Vertical is censured and fined \$400,000. The firm also agrees to an undertaking to review and revise, as necessary, the firm's AML and Section 5 policies, procedures, and internal controls in order to tailor them to its business model. Within 30 business days of acceptance of this AWC by the National Adjudicatory Council ("NAC"), the firm's President shall certify that the firm has established and implemented AML policies, procedures, and internal controls with respect to monitoring for suspicious securities transactions that are reasonably designed to achieve compliance with the requirements of the Bank Secrecy Act and the implementing regulations promulgated thereunder by the Department of the Treasury and that it has established and implemented a supervisory system and policies to ensure compliance with Section 5 of the Securities Act.

2. Chaleff is suspended in a principal capacity for two months and fined \$15,000; and
3. Duncan is suspended in all capacities for two months and fined \$50,000.

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

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

Respondents specifically and voluntarily waive any right to claim that they are unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

Chaleff understands that if he is barred or suspended from associating with any FINRA member in a principal capacity, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, Chaleff may not be associated with any FINRA member in a principal capacity during the period of the bar or suspension (see FINRA Rules 8310 and 8311). Furthermore, because Chaleff is subject to a statutory disqualification during the suspension, if he remains associated with a member firm in a non-suspended capacity, an application to continue that association may be required.

Duncan understands that if he is barred or suspended from associating with any FINRA member, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, Duncan may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension (see FINRA Rules 8310 and 8311).

II.

WAIVER OF PROCEDURAL RIGHTS

Respondents specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against them;
- 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, Respondents specifically and voluntarily waive 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.

Respondents 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

Respondents understand 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 Respondents; and
- C. If accepted:
 - 1. this AWC will become part of each Respondent'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 Respondent'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. Respondents 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. Respondents 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 Respondents' (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. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they 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.

Respondents Chaleff and Duncan, and the undersigned on behalf of Vertical, who certifies that he is a person duly authorized to act on the firm's behalf, have each read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that each Respondent 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 Respondents to submit it.

Respondents
The Vertical Trading Group, LLC

By: 
Name: Robert A Schaffer
Title: CEO

Date: 12/6/13

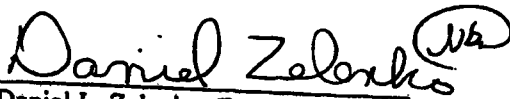
Date: _____

Glenn Matthew Chaleff

Date: _____

Mark McCabe Duncan

Reviewed by:


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Counsel for Respondents

Respondents Chaleff and Duncan, and the undersigned on behalf of Vertical, who certifies that he is a person duly authorized to act on the firm's behalf, have each read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that each Respondent 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 Respondents to submit it.

Respondents
The Vertical Trading Group, LLC

By: _____

Name: _____

Date: _____

Title: _____

Date: 12/6/2013


Glenn Matthew Chaleff

Date: _____

Mark McCabe Duncan

Reviewed by:



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Tel: (212) 895-4246
Counsel for Respondents

Respondents Chaleff and Duncan, and the undersigned on behalf of Vertical, who certifies that he is a person duly authorized to act on the firm's behalf, have each read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that each Respondent 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 Respondents to submit it.

Respondents
The Vertical Trading Group, LLC

By: _____

Name: _____

Date: _____

Title: _____

Date: _____

Glen Matthew Chaleff

Date: 12/6/13

Mark McCabe Duncan

Reviewed by:

Daniel Zelenko (AK)

Daniel L. Zelenko, Esquire
Crowell & Moring LLP
590 Madison Avenue, 20th Floor
New York, NY 10022-2524
Tel: (212) 895-4246
Counsel for Respondents

Accepted by FINRA:

January 10, 2014
Date

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

Michael J. Dixon

Michael J. Dixon
Senior Counsel
FINRA, Department of Enforcement
15200 Omega Drive, 3rd Floor
Rockville, Maryland 20850-3241
Tel: (301) 258-8522

FINRA
15200 Omega Drive
Rockville, MD 20850-3241

Re: Exam No. 2010022017301
Vertical Group, LLC Statement of Corrective Action

This Corrective Action Statement is submitted by the Respondent. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.

To Whom It May Concern:

Respondent The Vertical Trading Group, LLC ("Vertical" or the "firm") respectfully submits this Statement of Corrective Action to accompany its Letter of Acceptance, Waiver and Consent ("AWC") with regard to the above-referenced matter. In response to the conduct set forth in the AWC, Vertical has voluntarily taken the corrective measures set forth below.

Vertical has terminated its relationship with each of the three customers referenced in the AWC. More specifically, the corporate account in which the ENTI, SREH, EYSM, and DGMA were traded was suspended in September 2010 and closed shortly thereafter.

With respect to the two correspondent foreign DVP accounts referenced in the AWC, Vertical took steps to monitor their trading activity and withdrew as a market-maker for certain securities in 2010. These accounts were ultimately closed. The registered representatives responsible for these foreign DVP accounts are no longer associated with Vertical.

In addition, Vertical has taken a number of steps to substantially reduce its business activities related to the trading of low-priced securities. First, Vertical has closed or suspended all foreign DVP customer accounts and has discontinued this business activity. Vertical has also closed a number of customer accounts involving the deposit of low-priced securities and has restricted trading in other similar accounts.

Vertical, a small firm, has expanded its compliance department and now employs two full time compliance officers. The firm's new chief compliance officer and new deputy compliance officer, who together have over 40 years of combined industry experience, have amended the firm's written supervisory procedures relating to the deposit of low-priced securities.