

FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20110261650-03

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

RE: Tradition Asiel Securities Inc., Respondent
Broker-Dealer
CRD No. 28269

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Tradition Asiel Securities Inc. (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.

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 became a member of FINRA on September 16, 1991, and its registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

On November 24, 2008, FINRA accepted an AWC that imposed sanctions of a censure and a fine of \$18,500 (comprised of \$15,000 for trade reporting violations; \$1,000 for SEC Rule 10b-10 violations; and \$2,500 for books and records violations) pursuant to a 2008 Trading Market Making Surveillance ("TMMS") exam for trade dates January 7, 2008 through January 9, 2008, and an equity trade reporting matter with a review period of January 1, 2007 through April 30, 2007.

On January 8, 2009, Nasdaq accepted an AWC that imposed sanctions of a fine of \$5,000, for order marking violations in violation of Nasdaq Rule 4755 during the period of January 7, 2008 through January 9, 2008.

SUMMARY

In connection with 20110261650, the TMMS staff of the Department of Market Regulation (the “staff”) conducted the 2011 TMMS examination wherein the staff reviewed the items set forth on Exhibit 1, which is attached hereto and incorporated herein by reference, primarily for the trade dates of January 1, 2011 through March 4, 2011 (the “review period”).

FACTS AND VIOLATIVE CONDUCT

1. During the review period, the firm on 7,638 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 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.
2. During the review period, the firm failed to maintain an accurate ledger in 5,002 instances. Specifically, the firm’s ledger marked the transactions as long when they were short. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 17a-3 and NASD Rule 3110.
3. During the review period, the firm failed to transmit 22 Reportable Order Events (“ROEs”) to the Order Audit Trail System (“OATS”). The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.
4. During the review period, the firm incorrectly reported to the FINRA/Nasdaq Trade Reporting Facility (“FNTRF”) 2,898 riskless trade reports of transactions in designated securities it was not required to report. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 6380A.
5. During the review period, on five occasions, the firm accepted orders from customers for execution in the pre-market session or post-market session without disclosing to such customers that extended hours trading involves material trading risks, including the possibility of lower liquidity, high volatility, changing prices, unlinked markets, an exaggerated effect from news announcements, wider spreads and any other relevant risk. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 2265.
6. During the review period, the firm failed to establish, maintain, and enforce written policies and procedures that were reasonably designed to prevent trade-throughs of protected quotations in NMS stocks that do not fall within any applicable exception, and if relying on an exception, are reasonably designed to assure compliance with the terms of the exception. The conduct described in this paragraph constitutes a violation of SEC Rule 611(a)(1) of Regulation NMS and FINRA Rule 2010 and NASD Rule 3010.

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 FINRA Rules. At minimum, adequate Written Supervisory Procedures ("WSPs") addressing quality of markets topics should describe the following:
- (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 WSPs failed to provide for one or more of the four above-cited minimum requirements for adequate WSPs, in the following subject areas:

- **Order Handling:** SEC Rule 606 [d]; Limit order protection [d]; Market order protection [a -d] Routing of Intermarket sweep orders under SEC Rule 611(c) [a-d];
- **Best Execution:** Orders executed as principal [b]; Orders executed as riskless principal [b]; Orders executed with special handling conditions [b]; Orders handled concurrently [b]; Orders executed as agent, on an order by order basis [b]; Orders executed as agent, on an aggregate basis [b]; "Three-quote" rule for OTC securities [a-d]; Anti-Intimidation/Coordination (Procedures to detect/prevent coordination/collaboration) [a-d]; Procedures to detect/prevent threats, coercion, and intimidation [a-d]; Educating personnel as to what constitutes improper conduct [a-d];
- **Trade Reporting:** Timely and accurate reporting to the TRF [a, b]; Proper use of trade modifiers [a, b]; Reporting riskless principal transactions [a, b]; Accepting or matching trades in a timely manner [a, b]; Trades reporting by a third party on behalf of the member [b];
- **Sale Transactions:** Review of order marking/200(g) [b, c, d]; Review of locates [b, c]; Monitoring settlement [b, c]; Selling short after a fail [a-d]; Naked Short Selling [b, c]; Reporting sales to a TRF [b, c]; Prohibition on short sales following 10% price decrease [a-d];
- **Other Trading Rules:** Trading/quoting during a halt [a-d]; Honoring quotes [a-d]; Ensuring integrity of transactions [a-d]; FINRA clearly erroneous filings [a-d]; Review and detection of trade reporting errors [a-d];
- **Soft Dollar Accounts and Trading:** Monitoring soft dollar trades [b, c, d]; Operating outside of safe-harbor provisions [d]; Monitoring research and services provided [d];
- **OATS:** Clock synchronization [b, c];
- **Other Rules:** Sub-penny priced \$1.00 or higher [a-d]; Sub-penny priced under \$1.00 [a-d]; Review of electronic communications [b, c, d]; and
- **Use of Multiple MPIDs:** Monitoring the use of each MPID [a-d]; Procedures to limit access to and information sharing between multiple MPIDs [a-d]; and Procedures to ensure required supervision is performed for each MPID [a-d].

The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 2010 and NASD Rule 3010.

8. The firm failed to provide documentary evidence that during the month of March 2011, it performed the supervisory reviews set forth in its WSPs concerning:
- **Best Execution:** Orders executed as principal; Orders executed as riskless principal, Orders executed with special handling conditions; Orders handled concurrently; Orders executed as agent on an order by order basis; Orders executed as agent on an aggregate basis;
 - **Trade Reporting:** Timely and accurate reporting to the TRF; Proper use of trade modifiers; Reporting riskless principal transactions; Accepting or matching trades in a timely manner; and Trades reporting by a third party on behalf of the member;
 - **Sale Transactions:** Monitoring settlement; Naked Short Selling; and Reporting sales to a TRF;
 - **OATS:** Accurate and timely OATS reporting, Review; correct and re-submit OATS data, OATS data consistent with TRF reporting; and Consistent routing numbers; and
 - **Other Rules:** Chinese Walls and Information Barriers; and Accurate books and records.

The conduct described above constitutes separate and distinct violations of FINRA Rule 2010 and NASD Rule 3010.

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

A censure; a fine of \$77,500¹ (comprised of \$15,000 for the Regulation SHO violations, \$12,500 for the books and records violations, \$7,500 for the OATS violations, \$12,500 for the equity trade reporting violations, \$7,500 for the extended hours trading violations, \$5,000 for the Regulation NMS violations, and \$17,500 for the supervision violations); and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraphs six and seven.

Within 30 business days of acceptance of this AWC by the National Adjudicatory Council ("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

¹ In determining the fine in this matter, the Legal Section took into consideration sanctions in related disciplinary actions against the firm.

firm has revised its written supervisory procedures to address the deficiencies described in paragraphs six and seven; 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 National Adjudicatory Council ("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: (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. 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.

Date 1/27/2014

Respondent
Tradition Asiel Securities Inc.

By: 

Name: A. James Jacoby

Title: EVP

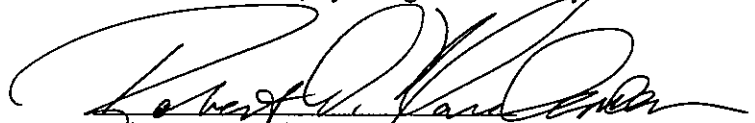
Reviewed by:

Attorney Name: _____
Counsel for Respondent

Accepted by FINRA:

2/25/14
Date

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


Robert A. Marchman
Executive Vice President
Department of Market Regulation

2011 Market Regulation Examination Samples
Tradition Asiel Securities, Inc. ("ASEL")
Exam No. 20110261650
Sample Source/Period*: March 1-4, 2011

<u>Sample</u>	<u>Size</u>	<u>Sample Description</u>
	3096	Sales reviewed for compliance with SEC Rule 200(g) long/short sale recording requirements
	7827	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
	130	Sell trades reported to a TRF or OTCRF for compliance with sale indicator requirements, FINRA Rules 6182 or 6624
	644	Sell orders entered into Nasdaq Exchange execution system for compliance with Nasdaq Rule 4755(a)(1)(A) long/short reporting requirements
	644	Buy and Sell orders entered into Nasdaq Exchange execution system for compliance with Nasdaq Rule 4611 capacity reporting requirements
	690	Sell orders entered into BATS Exchange execution system for compliance with BATS Rule 11.19 long/short reporting requirements
	911	Sell orders entered into DirectEdge Exchange execution system for compliance with EDGA/EDGX Rule 11.15 long/short reporting requirements
	956	Sell orders entered into NYSE-Arca execution system for compliance with NYSE-Arca Equity Rule 7.16 long/short reporting requirements
	0	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
	6	Orders for compliance with best execution requirements of NASD Rule 2320
	0	Held orders from the Held Order Protection Review
	4	Not Held orders from the Not Held Order Review
	0	Order executed with a .PRP (Prior Reference Price) trade modifier
	2	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
	0	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

2011 Market Regulation Examination Samples
Tradition Asiel Securities, Inc. ("ASEL")
Exam No. 20110261650
Sample Source/Period*: March 1-4, 2011

<u>Sample</u>	<u>Size</u>	<u>Sample Description</u>
	70	Orders in securities required to be submitted to OATS for compliance with FINRA Rules 7440 and 7450, and Nasdaq Rules 6954 and 6955 requirements
	27	Customer confirmations prepared and maintained in connection with select samples for compliance with SEC Rule 10b-10
	0	Orders for NMS securities in which the Firm acts as a market center for compliance with SEC Rule 605 order classification requirements
	0	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)
	1	Quarterly Routing Report for compliance with SEC Rule 606 requirements
	39	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 and Nasdaq Rule Series 1020, 1030, 1040
	2	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
	0	Disclosures to customers relating to trading in the Extended Hours session for compliance with FINRA Rule 2265 and Nasdaq Rule 4631
	17218	Records prepared and maintained in connection with the above samples for compliance with SEC Rules 17a-3 and 17a-4, and NASD Rule 3110
	3199	Trades reported to a TRF or OTCRF for compliance with FINRA Rules 6380A and 7230A or 6622 and 7330
All Provided		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 or Nasdaq Rule 3010 requirements