

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT,

COMPLAINANT,

v.

**LEE W. WALLER
(CRD No. 6124796),**

RESPONDENT.

**DISCIPLINARY PROCEEDING
No. 2013038196601**

HEARING OFFICER—_____

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. In May and June 2013, Lee W. Waller ("Waller"), a sovereign fixed income trader with Goldman, Sachs & Co.'s ("GS") foreign affiliate Goldman Sachs International ("GSI"), falsely represented to GSI that prices he arranged to provide to verify his internal valuations for positions in his trading book were independent market prices.

2. In fact, Waller colluded with two traders at other firms to provide GSI with prices that he determined himself.

3. Waller also falsely represented to GSI that a wash trade he engaged in to cover-up a trade error was a genuine trade.

4. By arranging for the provision of false pricing information and by making false statements to his firm regarding pricing of his trading positions and a wash trade, Waller violated FINRA Rule 2010.

RESPONDENT AND JURISDICTION

5. Lee W. Waller (CRD # 6124796) filed a Form U4 applying to register with member firm GS on May 6, 2013. On September 5, 2013, GS filed a Form U5 terminating Waller's application for registration "after the representative's employment with a foreign affiliate was terminated due to concerns about his conduct during a quarter end price verification and involving a particular bond trade."

6. While associated with GS by virtue of the filing of the Form U4 on May 6, 2013, Waller was a sovereign fixed income trader at GS's foreign affiliate, GSI, located in London, England.

7. Although Respondent is no longer associated with a FINRA member, he remains subject to FINRA's jurisdiction for purposes of this proceeding, pursuant to Article V, Section 4 of FINRA's By-Laws, because (1) the Complaint was filed within two years after the date upon which he ceased to be associated with a FINRA member, namely, September 5, 2013 and (2) the Complaint charges him with misconduct committed while he was associated with a FINRA member.

STATEMENT OF FACTS

Waller Made False Statements to GSI Regarding a Price Supplied by Another Trader

8. On March 27, 2013, GSI controllers found a variance between GSI's internal price and an external data provider's price for iTraxx SovX CEEMEA CDS ("SovX"), a security in Waller's book.¹

9. Upon discovery of this variance, one of the GSI controllers requested that Waller provide additional independent evidence to support his SovX price.

¹ This security is a Credit Default Swap Index of sovereign issuers from Central and Eastern Europe, the Middle East and Africa.

10. In response to this request, Waller arranged for GSI's controllers to receive a purportedly independent price for SovX from PW, a trader at GF, another London broker-dealer firm.

11. On April 30, 2013, Waller and PW exchanged Bloomberg messages in which Waller colluded with PW to provide the specific price for SovX that Waller supplied to GSI controllers.

12. On that same day, PW provided GSI controllers the pricing Waller provided to him.

13. In May and June 2013, GSI controllers commenced a review of certain internal GSI fixed income prices compared to an external data provider as part of a quarterly independent price verification process.

14. As part of that review, on May 7, 2013 GSI controllers requested that Waller verify the SovX price that PW had provided in April 2013 was independent.

15. In response to this request, Waller falsely represented to GSI controllers that the SovX price they received from PW was an independent market price and not a price that originated from him.

16. On June 28, 2013, Waller wrote in an email to GSI controllers "[n]o[,] these aren't our prices in the broker screens."

17. This statement was false—Waller had previously arranged with PW for PW to provide a price for SovX that originated from Waller himself and was not an independent market price.

18. On June 6, 2013, PW wrote to GSI controllers: "I can confirm these were tradeable levels on the 31st may [sic] and were not gs [sic] levels."

19. On June 28, 2013, PW wrote in an email to GSI controllers that “I can confirm these are not gs [sic] levels are tradeable prices and are seen by all market participants.”

20. These statements, which Waller arranged for PW to make, were false.

Waller Colluded with a Trader at Another Firm to Provide a False Price

21. On May 7, 2013, GSI controllers also requested Waller obtain a price on SovX from another broker dealer besides GF.

22. In response, Waller represented that he could “easily get another set of broker quotes for the SovX series no problem.”

23. However, rather than obtain an independent price for SovX, Waller colluded with MT, a trader at London broker-dealer TP, to provide GSI controllers a SovX price that was not truly independent.

24. During a May 7, 2013 telephone conversation between Waller and MT, Waller provided the prices he wanted MT to relay to GSI controllers and even remarked: “[Expletive deleted] you know I’m basically making these up right.”

25. That same day, MT emailed GSI controllers the prices that Waller provided to him.

Waller’s Actions and False Statements Were Intentional

26. Waller was aware that the GSI controllers did not want prices that originated from him but rather wanted independent market prices from an external source.

27. Waller also knew he was misleading the GSI controllers by colluding with TP to provide a false SovX price and by lying about the independent nature of the SovX price provided by PW.

28. On February 28, 2013, Waller wrote an email to GSI controllers stating: “[I] am waiting for the brokers to get some markets in them [sic] as [I] know u [sic] don’t want our prices.”

29. Similarly, on June 28, 2013, Waller wrote an email to GSI controllers stating: “[I] know you guys ask for prices from brokers which aren’t ours.”

30. Despite this awareness that GSI wanted independent prices, Waller arranged for two traders at other firms to provide GSI controllers with Waller’s own SovX prices and falsely represented to GSI that those prices were independent.

Waller’s Misrepresentations Concerning a Wash Trade

31. On June 25, 2013, Waller entered a sale of a Financing of Infrastructural Projects State Enterprise Ukraine Eurobond (“Fininpro Eurobonds”) to GF at the price of 99.

32. Waller entered this trade in error.

33. When GSI’s back office support staff questioned Waller about the trade, Waller claimed the trade was genuine.

34. On June 26, 2013, Waller had a telephone conversation with PW, the trader at GF. Among other things, during this telephone conversation Waller told PW: “I [expletive deleted] something up yesterday and I wonder if you can help me out . . . I’ve accidently booked I sold you a billion [Fininpro Eurobonds] . . . And I’ve sworn blind to my middle office all throughout the day that I done the trade. . . . And I told them nah nah [GF] have not, [GF’s] missed it. Is it alright if you book it and I’ll buy them back from you today”

35. Following the call with PW, GF purchased the Fininpro Eurobonds at 99 with a trade date of June 25, 2014.

36. Waller then repurchased the position from GF at the same price with a trade date of June 26, 2014.

37. Waller's trades of the Fininpro Eurobonds at a price of 99 were higher than the price provided by a third-party service of approximately 95. This resulted in a price variance in Waller's trading book of approximately \$1.5 million.

38. The price variance prompted review of Waller's trades by GSI controllers.

39. During that review, GSI's controllers discovered that he had bought back the position a day later at the same price and same quantity with the same counterparty.

40. When GSI controllers questioned Waller about the Fininpro Eurobonds trades with GF, Waller claimed the trades were genuine.

41. After further questioning about the Fininpro Eurobond trades by GSI controllers, Waller ultimately changed his explanation to claim that the June 25, 2014 sale was an error.

42. Waller also admitted that, rather than cancel the trade, as he was required to do in accordance with the firm's procedures, he executed the trades with GF because he was embarrassed by the trading error.

43. Waller also claimed, falsely, that it was PW's idea to have GSI repurchase the position at the same price.

44. Waller misled GSI personnel by engaging in the Fininpro Eurobonds wash trades with GF to disguise a trading error and by claiming that the trades were genuine.

**FIRST CAUSE OF ACTION
FALSE STATEMENTS REGARDING SOVX PRICING
(FINRA Rule 2010)**

45. The Department realleges and incorporates by reference paragraphs 1 through 44 above.

46. As described above, in connection with a GSI audit, Waller falsely represented to GSI personnel that certain SovX prices were independent market prices when in fact he colluded with two brokers to supply GSI with his own prices to justify his internal marks.

47. Waller also arranged to have one of these brokers falsely represent to GSI that the prices he provided were independent.

48. Waller's collusion and false representations to GSI were inconsistent with high standards of commercial honor and just and equitable principles of trade.

49. As a result of the foregoing conduct, Waller violated FINRA Rule 2010.

**SECOND CAUSE OF ACTION
WASH TRADE AND FALSE REPRESENTATIONS
(FINRA Rule 2010)**

50. The Department realleges and incorporates by reference paragraphs 1 through 49 above.

51. As described above, Waller falsely represented that an erroneous trade was genuine and misled GSI by engaging in a wash trade to make it appear that the erroneous trade was genuine.

52. Waller's conduct and false representations were inconsistent with high standards of commercial honor and just and equitable principles of trade.

53. As a result of the foregoing conduct, Waller violated FINRA Rule 2010.

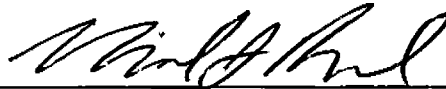
RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondent committed the violations charged and alleged herein;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a), including monetary sanctions, be imposed; and,
- C. order that Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date: December 4, 2014



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