

FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20160487017-01

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

RE: Cantone Research Inc., Respondent
Broker-Dealer
CRD No. 26314

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Cantone Research Inc. (the "firm" or "Respondent") 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 Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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 3, 1990, and its registration remains in effect. The firm does not have any relevant disciplinary history.

SUMMARY

This AWC addresses two matters. In connection with matter 20160487017, the TRACE Corporate Bonds Team of the Department of Market Regulation reviewed the firm's compliance with Trade Reporting and Compliance Engine ("TRACE") reporting requirements for TRACE-eligible Corporate Debt securities, and in connection with matter 20160487559, the TRACE Agency/SP Team of the Department of Market Regulation reviewed the firm's compliance with TRACE reporting requirements for TRACE-eligible Agency Debt securities. The review period for both matters was October 1, 2015, through December 31, 2015 (the "review period").

During the review period, the firm (1) failed to timely report transactions in Agency Debt securities, in violation of FINRA Rules 6730(a) and 2010, and failed to timely and accurately report transactions in TRACE-eligible Corporate Debt, in violation of Rule 6730(a) and (c)(8). The firm also failed to show the correct time of execution on the memoranda of brokerage orders for Corporate Debt securities, in violation of SEC Rule 17a-3 and FINRA Rule 4511.

FACTS AND VIOLATIVE CONDUCT

1. During the review period, the firm failed to report to TRACE 52 transactions in TRACE-eligible Agency Debt securities within the time permitted by FINRA Rule 6730. These transactions constituted 7.69 percent of the transactions in TRACE-eligible Agency Debt securities that the firm reported to TRACE during the review periods. The conduct described in this paragraph constitutes separate and distinct violations of Rule 6730(a) and a pattern or practice of late reporting without exceptional circumstances in violation of FINRA Rule 2010.
 2. During the review period, in 97 instances, the firm failed to report to TRACE transactions in TRACE-eligible Corporate Debt securities within the time permitted by Rule 6730 and failed to report to TRACE the correct time of trade execution. These 97 late and inaccurate reports constituted 9.64 percent of the 1,006 inter-dealer reports that the firm submitted to TRACE during the review period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rules 6730(a) and 6730(c)(8).
 3. In addition, the firm failed to show the correct time of execution on the memoranda of 26 brokerage orders for Corporate Debt securities. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 17a-3 and FINRA Rule 4511.
- B. Respondent also consents to the imposition of the following sanctions:

A censure and a fine of \$15,000 (\$6,250 for the Agency Debt TRACE reporting violations; \$6,250 for the Corporate Debt TRACE reporting violations; and \$2,500 for the recordkeeping violations).

Respondent 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.

Respondent 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

Respondent 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, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

Respondent 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

Respondent 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 Respondent; 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 accordance with FINRA Rule 8313;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. Respondent 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. Respondent 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. Respondent 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.

6/23/17

Title: Vice President

June 29, 2017
Date

James J. Nixon
Chief Litigation Counsel
FINRA Department of Market Regulation